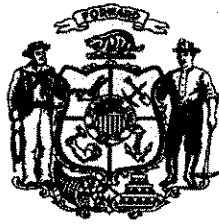


THE STATE OF WISCONSIN

A

**SENATE CHAIR
BRIAN BURKE**

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JOINT COMMITTEE ON FINANCE

MEMORANDUM

To: Members
Joint Committee on Finance

From: Senator Brian Burke
Representative Scott Jensen
Co-Chairs, Joint Committee on Finance

Date: January 14, 1997

Re: Report on Wisconsin School District Statistics for 1995

Attached please find a copy of a report from the Department of Revenue pursuant to section 73.03(29), Stats. concerning the individual income tax statistics for Wisconsin school districts for 1995.

This information is for your review only. No action will be taken by the Committee on this material. Please contact us if you need further information.

BB:SJ:jc



State of Wisconsin • DEPARTMENT OF REVENUE

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Tommy G. Thompson
Governor

Cate Zeuske
Secretary of Revenue

January 6, 1997

The Honorable Brian Burke
Co-Chair, Joint Committee on Finance
100 North Hamilton Street, Room 302
Madison, WI 53702

Dear Senator Burke:

A summary report containing 1995 individual income tax statistics for Wisconsin school districts, which the Department of Revenue is required by law to provide you, is enclosed.

Sections 73.03 (29) and (30), Wis. Stats., require the Department to collect and analyze information from individual income tax filers concerning the school district in which they resided during the taxable year, and to notify the presiding officers of both houses of the Legislature and the co-chairs of the Joint Committee on Finance of the results of the analysis.

Space was provided on all individual income tax returns for taxpayers to indicate, using a four-digit code, the school district in which they resided. These codes conform to the codes used by the Department of Public Instruction. School district information was not requested of Homestead credit claimants unless the claimant also filed an individual income tax return. Also, nonresidents filing Wisconsin income tax returns were directed not to enter a school district code.

The error rate for the data is high, and only 79% of the 2,316,000 reports analyzed for the report had a valid school district number. Approximately 282,000, or 12%, of the returns analyzed, have an invalid numeric school district code, that is, the code was inconsistent with the municipality of residence reported by the tax filer. Another 209,000 returns, 9% of those analyzed, have a non-numeric code. The Department of Revenue is not able to edit the school district code because it would substantially slow the processing of income tax returns. The municipality of residence reported by the tax filer and the zip code on the return label are of limited usefulness in editing the school district codes because school districts typically encompass several municipalities and zip codes, and a single municipality or zip code area may lie in more than one school district. Further, there is a high incidence of error by tax filers in their reporting of the municipality where they reside.

The Honorable Brian Burke
January 6, 1997
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If you have any questions about the summary report, please let me know.

Sincerely,



Cate Zeuske
Secretary of Revenue

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Enclosure

WISCONSIN SCHOOL DISTRICT STATISTICS FOR 1995
SUMMARY BY SCHOOL DISTRICT

This report summarizes, by school district, income tax information of the taxfilers who indicated on their 1995 income tax returns that they resided in a given school district.

Care should be exercised in using these data, since there are several problems inherent in the use of income tax data for measuring the ability to pay of school district property owners. First, the school district income information does not include the income of individuals who do not file tax returns because their income falls below the minimum filing requirements or because they do not have tax refunds.

Second, the income shown on the tax return excludes other sources of income that are either fully or partially exempt from tax (e.g. social security, public assistance, unemployment compensation). Thus, the income data from tax returns provided for school districts may understate the income of some districts.

Third, the income information does not include the income of nonresident property owners in the district, nor does it include the income of corporations located in the school districts.

The following is an explanation of the document's column headings.

<u>COLUMN HEADING</u>	<u>EXPLANATION</u>
School District Name	Name of school district as used by the Department of Public Instruction
District Number	Code number of school district as used by the Department of Public Instruction.
Return Count	The number of income tax returns that indicated a school district code regardless of whether or not they reported any income. (Husband and wife filing a joint return are counted as one return).
Total Income - Amount	The dollar total of all Wisconsin income reported by taxpayers to a school district before subtracting the standard deduction.
Total Income - Count	The number of tax returns by school district which reported Wisconsin total income (or loss).
Net Taxable Income - Amount	The dollar total of all Wisconsin taxable income after subtracting the standard deduction as determined by taxpayers of a school district. To be included, individual

Net Taxable Income - Count	taxable income must be greater than \$0. The number of tax returns for a school district which reported Wisconsin taxable income greater than \$0.
Net Tax - Amount	The dollar total of the net tax determined after subtracting the dependent credit, senior citizen credit, itemized deduction credit, school property tax credit and married couple credit. Such net tax determination is before the minimum tax, sales tax due on out-of-state purchases, endangered resources donation, penalties on retirement plans, taxes withheld, estimated tax payments, earned income credit, Farmland Preservation Credit, income tax paid to another state, Homestead Credit and farmland tax relief credit.
Net Tax - Count	The number of tax returns for which net tax was greater than \$0.
<u>ROW HEADING</u> (At End of Report)	
School Code/Tax District Mismatch	Data pertaining to those tax returns which did not indicate a correct school district and for which the Department of Revenue.
State Total (Valid Codes Only)	Statewide totals of all of the columns for school districts that met or exceeded the 87.5% validity criteria established by representatives of the Departments of Revenue, Administration and Public Instruction, and the Legislative Fiscal Bureau. The 87.5% validity criteria indicates that 87.5% of the returns in each tax district (municipality) has a valid school district code.
State Total (All Records)	Statewide totals of all of the columns for records--this is the sum of the school code/tax district mismatch and the state total (valid codes).

Copies of this report are available from the Wisconsin Department of Revenue, Division of Research and Analysis, 125 S. Webster Street, P.O. Box 8933, Madison, WI 53708-8933; telephone (608) 266-2700.

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SCHOOL DISTRICT NAME	DIST NUMBER	RETURN COUNT	TOTAL INCOME AMOUNT	INCOME COUNT	NET TAXABLE INCOME AMOUNT	NET TAXABLE COUNT	NET TAX AMOUNT	NET TAX COUNT
SCH D OF ABBOTSFORD	0007	969	34,416,011	969	30,954,049	840	1,788,138	789
SCH D OF ADAMS FRIENDSHIP AREA	0014	3,879	83,912,867	3,879	69,338,847	3,062	3,648,757	2,806
SCH D OF ALBANY	0063	693	19,584,249	693	17,399,378	593	934,459	566
SCH D OF ALGOMA	0070	2,155	57,604,840	2,155	50,391,072	1,838	2,704,569	1,743
SCH D OF ALMA	0084	387	10,398,435	387	9,088,284	312	492,347	294
SCH D OF ALMA CENTER	0091	858	18,558,857	858	15,341,919	703	801,437	673
SCH D OF ALMOND-BANCROFT	0105	594	17,157,908	594	15,216,681	498	842,541	470
SCH D OF ALTOONA	0112	825	28,278,372	825	25,637,942	768	1,372,813	725
SCH D OF AMERY	0119	2,501	70,722,915	2,501	62,931,580	2,127	3,340,035	2,005
SCH D OF TOMORROW RIVER (AMHERST)	0126	1,485	42,191,122	1,485	37,484,489	1,275	2,014,203	1,203
SCH D OF ANTIGO	0140	6,676	163,689,915	6,676	140,074,883	5,481	7,486,559	5,178
SCH D OF APPLETON AREA	0147	16,833	715,017,001	16,833	672,906,658	15,727	37,116,503	15,097
SCH D OF ARCADIA	0154	1,680	41,537,277	1,680	35,697,882	1,431	1,910,245	1,343
SCH D OF ARGYLE	0161	505	11,694,771	505	9,784,591	415	513,090	386
SCH D OF ASHLAND	0170	4,747	118,747,154	4,747	102,115,572	3,842	5,488,094	3,596
SCH D OF ASHWAUBENON	0182	6,263	224,359,198	6,263	207,888,765	5,609	11,432,349	5,443
SCH D OF ATHENS	0196	1,028	28,225,930	1,028	21,379,785	896	1,103,354	847
SCH D OF AUBURNDALE	0203	1,414	35,540,965	1,414	31,396,747	1,202	1,680,232	1,158
SCH D OF AUGUSTA	0217	905	18,522,294	905	14,887,129	711	766,694	652
SCH D OF BALDWIN-WOODVILLE AREA	0231	2,103	64,026,498	2,103	57,204,047	1,848	3,056,397	1,764
SCH D OF UNITY (MILLTOWN)	0238	1,987	48,738,275	1,987	41,613,516	1,665	2,185,906	1,580
SCH D OF BANGOR	0245	1,137	30,154,265	1,137	26,194,986	984	1,385,876	941
SCH D OF BARABOO	0280	7,325	201,267,022	7,325	177,527,954	6,229	9,413,396	5,887
SCH D OF BARNEVELD	0287	547	17,547,545	547	15,990,252	485	840,029	470
SCH D OF BARRON AREA	0308	2,942	69,432,355	2,942	58,403,144	2,477	3,061,988	2,330
SCH D OF BAYFIELD	0315	1,139	22,771,499	1,139	18,748,118	821	976,075	744
SCH D OF BEAVER DAM	0336	9,026	272,934,643	9,026	244,684,410	7,907	13,235,374	7,480
SCH D OF BELLEVILLE	0350	1,337	45,076,195	1,337	41,383,652	1,207	2,181,207	1,164
SCH D OF BELMONT COMMUNITY	0364	672	14,269,581	672	11,970,899	535	613,780	508
SCH D OF BELOIT	0413	5,152	181,362,086	5,152	165,342,055	4,769	9,131,927	4,584
SCH D OF BELOIT TURNER	0422	1,086	44,084,425	1,086	41,373,397	1,019	2,282,378	976
SCH D OF BENTON	0427	455	10,907,073	455	9,463,064	385	501,179	365
SCH D OF BERLIN AREA	0434	3,401	91,804,487	3,401	80,808,922	2,882	4,342,435	2,736
SCH D OF BIRCHWOOD	0441	509	10,775,261	509	8,754,089	409	445,271	382
SCH D OF WISCONSIN HEIGHTS (BLK EARTH)	0469	1,746	62,588,352	1,746	57,800,232	1,569	3,131,498	1,510
SCH D OF BLACK RIVER FALLS	0478	3,536	93,317,812	3,536	81,075,755	2,893	4,381,207	2,716
SCH D OF BLAIR-TAYLOR	0485	1,059	23,117,107	1,059	18,890,781	876	967,066	828
SCH D OF PECATONICA AREA (BLANCHROVILLE)	0490	893	20,092,893	893	16,768,738	724	870,739	675
SCH D OF BLOOMER	0497	2,284	60,268,874	2,284	52,206,169	1,951	2,819,179	1,872
SCH D OF BONDUEL	0602	1,918	49,449,283	1,918	42,392,075	1,623	2,261,447	1,534
SCH D OF BOSCOBEL	0609	1,813	38,974,067	1,813	32,443,828	1,457	1,706,644	1,381
SCH D OF BOULDER JUNCTION J 1	0616	1,248	37,892,591	1,248	33,744,739	1,044	1,892,183	961
SCH D OF BOWLER	0623	532	10,453,896	532	8,441,531	411	435,575	393
SCH D OF BOYCEVILLE COMMUNITY	0637	1,151	26,909,594	1,151	22,814,269	954	1,192,421	897
SCH D OF BRIGHTON #1	0657	265	8,980,085	265	8,216,947	231	448,858	220
SCH D OF BRILLION	0658	1,723	59,896,002	1,723	54,808,970	1,532	3,039,487	1,470
SCH D OF BRISTOL #1	0665	590	24,467,666	590	22,991,758	533	1,271,607	533
SCH D OF BRODHEAD	0700	2,110	61,309,456	2,110	54,479,540	1,824	2,841,080	1,733
SCH D OF ELMBROOK (BROOKFIELD)	0714	8,808	633,609,922	8,808	618,151,004	8,170	36,545,281	7,886
SCH D OF BROWN DEER	0721	5,767	210,448,133	5,767	195,374,541	5,216	10,748,523	5,014
SCH D OF BRUCE	0735	1,090	22,980,778	1,090	18,861,060	841	993,076	791

SCHOOL DISTRICT NAME	DIST NUMBER	RETURN COUNT	TOTAL INCOME AMOUNT	INCOME COUNT	NET TAXABLE INCOME AMOUNT	NET TAXABLE COUNT	NET TAX AMOUNT	NET TAX COUNT
SCH D OF BURLINGTON AREA	0777	8,679	302,743,394	8,679	278,130,707	7,740	15,145,851	7,396
SCH D OF BUTTERNUT	0840	598	13,913,513	598	11,703,420	473	621,635	459
SCH D OF CADOTT COMMUNITY	0870	1,443	34,082,373	1,443	28,531,774	1,170	1,506,904	1,095
SCH D OF CAMBRIA-FRIESLAND	0882	707	17,428,818	707	14,906,863	589	780,955	559
SCH D OF CAMBRIDGE	0895	1,509	45,744,296	1,509	41,208,631	1,334	2,171,086	1,274
SCH D OF CAMERON	0903	1,119	27,606,667	1,119	23,372,959	954	1,212,396	905
SCH D OF CAMPBELLSPORT	0910	3,151	96,840,823	3,151	87,073,975	2,814	4,705,578	2,697
SCH D OF CASHTON	0980	976	19,825,288	976	16,065,621	775	822,321	707
SCH D OF CASSVILLE	0994	917	19,633,435	917	16,551,913	723	890,159	674
SCH D OF CEDARBURG	1015	2,668	127,856,713	2,668	121,545,038	2,513	6,742,781	2,388
SCH D OF CEDAR GROVE-BELGIUM AREA	1029	1,811	61,595,533	1,811	58,248,226	1,659	2,989,401	1,578
SCH D OF CHEYER	1078	2,076	46,831,381	2,076	38,760,463	1,678	2,009,074	1,563
SCH D OF CHILTON	1085	2,508	79,786,090	2,508	71,712,155	2,233	3,970,056	2,129
SCH D OF CHIPPEWA FALLS AREA	1092	10,676	316,839,991	10,676	281,010,811	9,286	15,269,156	8,840
SCH D OF CLAYTON	1120	448	11,987,726	448	10,434,184	378	566,771	356
SCH D OF CLEAR LAKE	1127	994	25,564,961	994	21,949,021	846	1,151,582	809
SCH D OF CLINTON COMMUNITY	1134	1,989	65,926,656	1,989	60,839,220	1,731	3,243,002	1,557
SCH D OF CLINTONVILLE	1141	3,512	89,691,362	3,512	77,289,722	2,988	4,100,061	2,821
SCH D OF COCHRANE-FOUNTAIN CITY	1155	1,952	50,504,937	1,952	44,056,752	1,676	2,345,358	1,600
SCH D OF COLBY	1182	2,210	53,308,872	2,210	45,599,908	1,861	2,405,648	1,750
SCH D OF COLEMAN	1189	1,768	45,455,084	1,768	38,899,341	1,479	2,085,425	1,390
SCH D OF COLFAX	1176	917	23,778,686	917	20,407,723	781	1,075,282	763
SCH D OF COLUMBUS	1183	2,974	90,158,196	2,974	80,930,375	2,608	4,353,026	2,475
SCH D OF CORNELL	1204	506	21,089,844	506	17,610,842	735	939,054	693
SCH D OF CRANDON	1218	1,933	43,766,057	1,933	36,187,599	1,518	1,941,410	1,412
SCH D OF CRIVITZ	1232	1,716	40,018,056	1,716	33,370,610	1,397	1,773,205	1,320
SCH D OF CUBA CITY	1246	2,040	54,242,376	2,040	47,333,358	1,766	2,527,269	1,684
SCH D OF CUDAHY	1253	8,709	246,010,375	8,709	217,979,326	7,667	11,644,789	7,236
SCH D OF CUMBERLAND	1260	2,210	52,641,510	2,210	44,942,131	1,792	2,365,731	1,682
SCH D OF DARLINGTON COMMUNITY	1295	1,777	43,052,802	1,777	36,997,705	1,454	1,948,980	1,366
SCH D OF DEERFIELD COMMUNITY	1309	1,166	39,995,528	1,166	36,953,921	1,048	1,941,333	1,011
SCH D OF DEFORD AREA	1316	5,954	232,227,228	5,954	217,598,953	5,402	11,752,344	5,239
SCH D OF KETTLE MORaine (DELAFIELD)	1376	6,680	343,399,022	6,680	329,570,401	6,002	18,673,734	5,825
SCH D OF DELAVAN-DARIEN	1380	5,511	161,206,402	5,511	143,130,578	4,841	7,614,331	4,555
SCH D OF DENMARK	1407	2,728	79,787,019	2,728	71,212,387	2,406	3,832,535	2,318
SCH D OF DE PERE	1414	3,493	153,955,520	3,493	145,024,706	3,164	8,582,131	3,061
SCH D OF DE SOTO AREA	1421	1,535	37,452,928	1,535	31,789,063	1,268	1,662,880	1,180
SCH D OF DODGEVILLE	1428	2,615	75,444,308	2,615	66,751,298	2,271	3,562,449	2,156
SCH D OF DOVER #1	1449	173	6,619,518	173	5,132,845	152	331,588	154
SCH D OF DRUMMOND	1491	1,550	33,573,514	1,550	27,624,842	1,221	1,436,448	1,144
SCH D OF DURAND	1499	2,094	54,354,970	2,094	46,879,343	1,771	2,527,881	1,669
SCH D OF NORTHLAND PINES (EAGLE RIVER)	1526	4,697	110,450,387	4,697	92,979,677	3,805	4,867,442	3,488
SCH D OF EAST TROY COMMUNITY	1540	3,730	130,641,216	3,730	120,435,277	3,336	6,512,451	3,223
SCH D OF EAU CLAIRE AREA	1554	27,445	863,778,771	27,445	775,234,087	23,584	42,563,490	22,220
SCH D OF EDGAR	1568	1,141	28,850,188	1,141	24,781,174	984	1,311,394	934
SCH D OF EDGERTON	1588	3,820	119,610,900	3,820	107,756,653	3,391	5,849,992	3,236
SCH D OF ELCHO	1600	1,094	22,889,385	1,094	18,439,938	878	943,813	780
SCH D OF ELEVA-STROM	1602	1,368	32,615,156	1,368	27,715,581	1,136	1,458,717	1,068
SCH D OF ELKHART LAKE-GLENBEULAH	1631	1,543	60,683,319	1,543	56,477,541	1,346	3,194,122	1,299
SCH D OF ELKHORN AREA	1638	4,508	144,307,245	4,508	130,211,707	3,916	7,038,001	3,702
SCH D OF ELK MOUND AREA	1645	786	22,653,523	786	19,979,457	693	1,059,709	658

SCHOOL DISTRICT NAME	DIST NUMBER	RETURN COUNT	TOTAL INCOME AMOUNT	TOTAL INCOME COUNT	NET TAXABLE AMOUNT	NET TAXABLE INCOME COUNT	NET TAX AMOUNT	NET TAX COUNT
SCH D OF ELLSWORTH COMMUNITY	1659	3,840	111,131,023	3,840	99,277,512	3,334	5,318,010	3,207
SCH D OF ELMWOOD	1666	652	16,837,327	652	14,313,510	570	762,323	526
SCH D OF ELROY-KENDALL-WILTON	1673	1,688	42,094,954	1,688	35,948,037	1,370	1,959,216	1,281
SCH D OF ERIN #2	1687	325	17,490,611	325	16,806,709	316	940,239	299
SCH D OF EVANSVILLE COMMUNITY	1694	2,376	77,558,703	2,376	70,579,767	2,119	3,777,888	2,033
SCH D OF FALL CREEK	1729	1,023	29,112,822	1,023	25,500,115	865	1,358,101	872
SCH D OF FALL RIVER	1736	682	23,329,128	682	21,180,867	594	1,165,007	572
SCH D OF FENNIMORE COMMUNITY	1813	1,702	40,062,236	1,702	34,168,459	1,395	1,830,776	1,315
SCH D OF LAC DU FLAMBEAU #1	1848	770	12,867,015	770	10,364,355	1,575	2,261,780	1,482
SCH D OF FLORENCE COUNTY	1855	1,949	49,036,836	1,949	42,168,291	1,755	15,496,274	7,884
SCH D OF FOND DU LAC	1862	8,956	314,066,607	8,956	285,641,183	8,496	3,385,052	1,689
SCH D OF FONTANA J 8	1870	188	7,620,260	188	7,028,791	178	10,104,118	5,645
SCH D OF FORT ATKINSON	1883	6,749	209,045,179	6,749	188,111,457	5,935	4,539,716	910
SCH D OF FOX POINT J 2	1890	1,000	77,557,842	1,000	76,112,568	948	1,908,912	323
SCH D OF MAPLE DALE-INDIAN HILL	1897	376	32,564,559	376	31,849,344	344	9,563,666	3,442
SCH D OF FRANKLIN PUBLIC	1900	3,707	180,689,751	3,707	173,442,595	3,541	1,323,791	999
SCH D OF FREDERIC	1939	1,306	30,087,725	1,306	25,201,230	1,061	2,884,138	1,437
SCH D OF NORTHERN OZAUKEE	1945	1,642	57,643,262	1,642	53,249,315	1,483	4,043,104	2,040
SCH D OF FREEDOM AREA	1953	2,366	80,739,121	2,366	74,433,803	2,106	3,330,555	2,226
SCH D OF GALESVILLE-ETTRICK	2009	2,713	72,597,775	2,713	62,894,078	2,356	670,842	634
SCH D OF NORTH CRAWFORD	2016	897	16,646,444	897	13,158,775	688	128,596	67
SCH D OF GENEVA J 4	2044	75	2,630,393	75	2,394,539	71	540,474	301
SCH D OF GENOA CITY J 2	2051	344	11,449,814	344	10,346,224	315	19,559,073	7,710
SCH D OF GERMANTOWN	2058	8,667	372,784,868	8,667	352,843,844	7,937	3,647,958	2,030
SCH D OF GIBRALTAR AREA	2114	2,601	75,281,510	2,601	66,895,736	2,187	1,621,182	1,234
SCH D OF GILLET	2128	1,557	36,847,791	1,557	30,780,643	1,300	859,144	242
SCH D OF GILMAN	2135	955	19,467,720	955	16,311,880	725	1,213,195	850
SCH D OF GLENDALE-RIVER HILLS	2142	345	5,380,863	345	4,000,843	262	456,265	445
SCH D OF GLENWOOD CITY	2184	4,571	212,027,570	4,571	201,240,722	4,142	449,865	356
SCH D OF GLIDDEN (JACOBS)	2198	1,058	26,741,554	1,058	23,052,404	894	5,526,312	2,119
SCH D OF GOODMAN-ARMSTRONG	2205	637	11,954,575	637	9,015,575	484	382,830	304
SCH D OF GRAFTON	2212	475	10,471,813	475	8,552,215	374	2,118,045	1,458
SCH D OF GRANTON AREA	2217	2,309	106,095,842	2,309	100,443,954	2,199	906,425	702
SCH D OF GRANTSBURG	2226	415	9,158,093	415	7,459,262	329	105,643,968	52,355
SCH D OF BLACK HAWK (GRATIOT)	2233	1,832	20,386,343	1,832	39,657,538	1,542	7,975,159	6,798
SCH D OF GREEN BAY AREA	2240	62,326	2,099,344,841	62,326	1,909,509,472	54,772	20,947,168	10,936
SCH D OF GREENDALE	2289	7,982	336,086,891	7,982	315,839,808	7,130	1,669,373	796
SCH D OF GREENFIELD	2303	12,798	421,216,753	12,798	384,498,464	11,573	1,039,766	687
SCH D OF GREEN LAKE	2310	965	32,839,371	965	29,818,221	839	1,187,525	4,828
SCH D OF GREENWOOD	2394	909	22,689,678	909	19,234,881	752	2,568,394	1,391
SCH D OF HAMILTON (LISBON)	2420	5,449	219,744,331	5,449	206,738,819	4,993	10,265,558	4,819
SCH D OF SAINT CROIX CENTRAL (HAMMOND)	2422	1,640	52,792,117	1,640	47,868,595	1,450	1,848,823	1,172
SCH D OF HARTFORD J 1	2443	5,606	203,433,552	5,606	187,752,064	5,076	381,402	222
SCH D OF HARTLAND-LAKESIDE J3	2460	1,617	79,238,966	1,617	75,740,986	1,541	525,372	428
SCH D OF HAYWARD COMMUNITY	2478	4,581	107,484,707	4,581	91,352,617	3,435	2,049,351	970
SCH D OF SOUTHWESTERN WISCONSIN (HZ GR)	2485	1,392	38,557,611	1,392	34,300,441	1,241	1,136,659	896
SCH D OF HERMAN #22	2523	273	8,055,486	273	7,142,374	238		
SCH D OF HIGHLAND	2527	536	12,104,759	536	10,158,122	447		
SCH D OF HILBERT	2534	1,133	40,362,215	1,133	36,712,274	1,013		
SCH D OF HILLSBORO	2541	1,244	25,797,380	1,244	21,737,121	969		

SCHOOL DISTRICT NAME	DIST NUMBER	RETURN COUNT	TOTAL INCOME AMOUNT	TOTAL INCOME COUNT	NET TAXABLE AMOUNT	NET TAXABLE INCOME COUNT	NET TAX AMOUNT	NET TAX COUNT
SCH D OF HOLMEN	2562	3,795	115,523,816	3,795	103,853,928	3,305	5,425,848	3,206
SCH D OF HORIZON	2576	2,791	89,594,703	2,791	81,382,382	2,456	4,404,658	2,360
SCH D OF HORTONVILLE	2583	4,085	159,010,406	4,085	149,108,390	3,699	8,115,140	3,593
SCH D OF HOWARD-SUAMICO	2604	5,452	198,918,335	5,452	184,501,027	4,901	9,969,571	4,770
SCH D OF HOWARDS GROVE	2605	1,560	56,040,324	1,560	52,075,769	1,426	2,904,957	1,376
SCH D OF HUDSON	2611	8,051	354,314,187	8,051	316,161,859	7,265	17,403,087	7,052
SCH D OF HURLEY	2618	1,814	41,494,828	1,814	33,990,752	1,558	1,804,594	1,482
SCH D OF HUSTISFORD	2625	909	27,832,405	909	25,010,999	797	1,338,683	761
SCH D OF INDEPENDENCE	2632	1,020	21,415,757	1,020	17,540,591	846	904,601	798
SCH D OF IOLA-SCANDINAVIA	2639	1,474	41,464,288	1,474	36,758,790	1,258	1,959,480	1,199
SCH D OF IOWA-GRANT	2646	1,439	32,769,329	1,439	27,612,743	1,199	1,441,630	1,128
SCH D OF ITHACA	2660	307	7,419,365	307	6,240,339	270	319,127	252
SCH D OF JANESVILLE	2695	22,458	818,056,602	22,458	753,056,320	20,172	41,924,939	19,227
SCH D OF JEFFERSON	2702	4,784	141,194,905	4,784	126,005,652	4,280	6,732,011	4,074
SCH D OF JOHNSON CREEK	2730	1,081	33,918,501	1,081	30,422,365	970	1,652,258	993
SCH D OF JUDA (JEFFERSON)	2737	214	6,093,283	214	5,412,613	183	2,226,674	1,809
SCH D OF DODGE LAND (JUNEAU)	2744	2,181	61,680,845	2,181	54,782,756	1,937	12,760,076	6,746
SCH D OF KAUKAUNA AREA	2758	7,855	258,036,641	7,855	234,975,535	7,032	72,768,635	37,959
SCH D OF KENOSHA	2793	46,045	1,479,209,985	46,045	1,340,700,854	40,209	6,777,550	3,623
SCH D OF KEWAUKUM	2800	4,292	138,296,082	4,292	125,469,783	3,756	3,622,177	2,342
SCH D OF KEWAUNEE	2814	2,799	76,734,140	2,799	67,200,897	2,448	4,446,852	2,639
SCH D OF KIEL AREA	2828	3,121	92,655,773	3,121	82,793,875	2,749	6,614,262	3,282
SCH D OF KIMBERLY AREA	2835	3,692	132,491,436	3,692	122,458,110	3,409	1,129,506	335
SCH D OF KOHLER	2842	376	20,473,170	376	19,627,598	353	18,277,295	9,349
SCH D OF LA CROSSE	2849	10,889	371,319,800	10,889	336,156,749	9,894	2,397,636	1,755
SCH D OF LADYSMITH-HAWKINS	2856	2,273	54,052,806	2,273	45,512,574	1,868	378,596	370
SCH D OF LA FARGE	2863	507	9,554,274	507	7,555,982	403	7,966,168	4,262
SCH D OF LAKE GENEVA J 1	2885	5,192	161,216,601	5,192	145,573,020	4,506	539,671	399
SCH D OF LAKE HOLCOMBE	2891	526	12,464,810	526	10,363,053	422	4,253,834	2,337
SCH D OF LAKE MILLS AREA	2898	2,774	87,409,234	2,774	79,691,565	2,457	2,846,357	1,911
SCH D OF LANCASTER COMMUNITY	2912	2,397	61,777,924	2,397	53,526,432	2,038	728,659	529
SCH D OF LAONA	2940	693	15,831,773	693	13,401,849	563	1,070,122	804
SCH D OF LENA	2961	997	23,774,245	997	20,309,513	833	138,867	57
SCH D OF LINN J 4	3087	63	2,683,865	63	2,513,086	59	110,323	49
SCH D OF LINN J 5	3094	53	2,173,219	53	2,032,517	50	1,205,634	384
SCH D OF RICHMOND	3122	414	22,230,027	414	21,407,731	391	3,331,326	1,442
SCH D OF LITTLE CHUTE AREA	3129	1,585	64,651,122	1,585	60,545,802	1,495	5,242,175	2,800
SCH D OF LODI	3150	3,301	108,003,190	3,301	98,575,483	2,895	3,308,127	1,902
SCH D OF LOMIRA	3171	2,212	68,053,475	2,212	61,186,216	1,979	1,040,565	730
SCH D OF LOYAL	3206	912	22,865,884	912	19,568,310	770	1,195,983	844
SCH D OF LUCK	3213	1,088	26,502,342	1,088	22,723,013	901	4,762,992	2,774
SCH D OF LUXEMBURG-CASCO	3220	3,277	98,034,482	3,277	88,023,682	2,878	125,444,669	56,749
SCH D OF MADISON METROPOLITAN	3269	65,977	2,446,900,368	65,977	2,262,071,623	59,621	2,482,937	1,368
SCH D OF MANAWA	3276	1,717	51,273,124	1,717	45,197,011	1,450	26,337,275	14,386
SCH D OF MANITOWOC	3290	17,270	535,805,609	17,270	479,505,460	15,177	2,735,502	1,760
SCH D OF MAPLE	3297	2,222	58,876,640	2,222	50,705,163	1,862	3,857,562	1,633
SCH D OF MARATHON CITY	3304	1,321	72,775,804	1,321	66,870,016	1,698	8,439,677	5,125
SCH D OF MARINETTE	3311	617	175,048,468	617	153,972,695	5,379	1,315,868	954
SCH D OF MARION	3318	1,217	29,040,041	1,217	24,609,870	1,013	2,299,986	1,582
SCH D OF MARKESAN	3325	1,975	50,181,637	1,975	43,066,104	1,684		
SCH D OF MARSHALL	3332	2,036	65,972,239	2,036	60,089,374	1,813	3,208,370	1,739

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SCHOOL DISTRICT NAME	DIST NUMBER	RETURN COUNT	TOTAL INCOME AMOUNT	INCOME COUNT	NET TAXABLE INCOME AMOUNT	INCOME COUNT	NET TAX AMOUNT	NET TAX COUNT
SCH D OF MARSHFIELD	3339	11,617	393,845,157	11,617	357,941,137	10,123	19,924,242	9,682
SCH D OF MAUDSLON	3360	3,746	87,945,139	3,746	74,501,407	3,012	3,958,805	2,843
SCH D OF MAYVILLE	3367	2,865	92,256,743	2,865	83,832,641	2,569	4,520,607	2,472
SCH D OF MCFARLAND	3381	3,509	146,839,921	3,509	139,196,358	3,150	7,592,902	3,065
SCH D OF MCFORD AREA	3409	5,342	146,186,171	5,342	128,187,874	4,542	6,902,412	4,324
SCH D OF MELLER	3427	833	18,622,786	833	15,347,122	674	805,317	651
SCH D OF MELROSE-MINDORO	3428	1,160	25,988,045	1,160	21,682,170	954	1,123,999	901
SCH D OF MENASHA	3430	9,101	300,472,558	9,101	272,213,871	8,213	14,858,003	7,818
SCH D OF MENOMINEE INDIAN	3434	5,201	12,596,587	5,201	9,609,064	495	496,070	449
SCH D OF MENOMONEE FALLS	3437	5,201	222,681,662	5,201	209,751,071	4,925	11,448,935	4,683
SCH D OF MENOMONIE AREA	3444	7,085	194,594,924	7,085	171,249,914	6,014	9,212,890	5,847
SCH D OF MEQUON-THIENSVILLE	3479	4,461	263,898,349	4,461	254,662,250	4,135	14,713,481	3,967
SCH D OF MERCER	3484	1,692	14,848,618	1,692	11,968,746	544	637,530	484
SCH D OF MERRILL AREA	3500	8,483	239,177,069	8,483	210,193,964	7,247	11,307,221	6,917
SCH D OF MERRILL AREA	3510	1,431	9,691,287	1,431	9,444,394	1,336	545,780	134
SCH D OF MERTON J 9	3514	258	12,325,378	258	11,756,353	246	644,894	236
SCH D OF MERTON J 9	3528	794	36,740,090	794	35,131,153	731	1,926,749	714
SCH D OF MIDDLETON-CROSS PLAINS	3542	431	20,978,941	431	19,961,025	399	1,124,863	382
SCH D OF MIDDLETON-CROSS PLAINS	3549	7,689	352,799,321	7,689	335,119,027	7,081	18,768,060	6,859
SCH D OF MILTON	3612	4,399	154,684,393	4,399	148,617,099	3,859	8,213,883	3,708
SCH D OF MILWAUKEE	3619	252,152	6,407,813,432	252,152	5,551,742,891	212,644	297,177,030	197,770
SCH D OF MINERAL POINT	3633	1,475	36,976,628	1,475	31,754,516	1,244	1,670,431	1,157
SCH D OF MINOCQUA J 1	3640	3,028	91,228,258	3,028	80,590,129	2,537	4,407,209	2,375
SCH D OF NORTHWOOD (MINONG)	3654	1,130	29,773,615	1,130	25,436,809	905	1,395,297	847
SCH D OF MISHICOT	3661	2,122	59,831,527	2,122	53,559,962	1,837	2,894,229	1,773
SCH D OF MONDOVI	3668	1,806	41,464,700	1,806	34,410,796	1,505	1,877,971	1,389
SCH D OF MONONA GROVE	3675	3,293	134,621,387	3,293	126,668,759	3,081	6,823,267	2,970
SCH D OF MONROE	3682	6,688	202,478,628	6,688	180,493,479	5,759	9,928,873	5,426
SCH D OF MONTELEO	3689	1,942	43,901,493	1,942	36,274,254	1,597	1,876,706	1,476
SCH D OF MONTICELLO	3696	763	20,235,577	763	17,587,332	674	945,071	636
SCH D OF MOUNT HOREB AREA	3727	4,159	132,050,507	4,159	119,577,445	3,636	6,447,368	3,491
SCH D OF MOUNT HOREB AREA	3794	3,561	121,841,090	3,561	111,606,616	3,172	6,038,307	3,018
SCH D OF MUKWONAGO	3822	9,365	378,199,730	9,365	357,659,734	8,366	19,503,028	8,186
SCH D OF RIVERDALE (MUSCODA)	3850	1,680	36,587,482	1,680	29,909,844	1,367	1,557,010	1,275
SCH D OF MUSKEGO-NORWAY	3857	4,045	187,001,141	4,045	178,208,311	3,851	9,715,955	3,728
SCH D OF LAKE COUNTRY	3862	866	41,745,163	866	39,788,359	795	2,239,561	763
SCH D OF Necedah Area	3871	1,317	37,493,444	1,317	32,443,930	1,076	1,478,502	1,018
SCH D OF Necedah Area	3892	16,422	657,151,555	16,422	614,892,287	14,764	34,361,272	14,165
SCH D OF NEENAH	3899	2,458	59,017,487	2,458	49,716,942	2,040	2,630,888	1,917
SCH D OF NELLISVILLE	3906	1,868	82,078,394	1,868	55,960,351	1,721	3,043,676	1,658
SCH D OF NEKOOSA	3913	569	19,006,885	569	17,396,188	512	931,671	495
SCH D OF NEDOSH J 3	3920	553	11,124,849	553	8,820,061	441	450,592	408
SCH D OF NEW ALBURN	3925	6,454	316,738,804	6,454	302,678,348	6,179	15,774,843	5,947
SCH D OF NEW BERLIN	3934	1,314	37,450,803	1,314	33,298,618	1,143	1,759,268	1,076
SCH D OF NEW GLARUS	3941	3,632	104,028,482	3,632	92,932,863	3,198	5,002,995	3,029
SCH D OF NEW HOLSTEIN	3948	1,481	39,275,524	1,481	34,001,769	1,194	1,897,346	1,132
SCH D OF NEW LISBON	3955	5,085	154,882,074	5,085	138,633,457	4,498	7,430,034	4,293
SCH D OF NEW LONDON	3962	4,452	142,804,505	4,452	129,368,399	3,882	6,948,046	3,717
SCH D OF NEW RICHMOND	3969	625	21,381,967	625	19,410,926	558	1,071,046	522
SCH D OF NIAGARA	3976	4	414,754	4	401,228	4	24,722	4
SCH D OF NORRIS (VERNON)	3983	3,009	85,184,111	3,009	75,728,886	2,632	4,043,695	2,515
SCH D OF NORTH FOND DU LAC								

WISCONSIN SCHOOL DISTRICT SUMMARY STATISTICS FOR 1995

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SCHOOL DISTRICT NAME	DIST NUMBER	RETURN COUNT	TOTAL INCOME AMOUNT	INCOME COUNT	NET TAXABLE INCOME AMOUNT	INCOME COUNT	NET TAX AMOUNT	NET TAX COUNT
SCH D OF NORWALK-ONTARIO	3990	687	13,214,580	687	10,370,224	541	523,235	491
SCH D OF NORWAY J 7	4011	248	10,980,544	248	10,430,982	223	559,234	225
SCH D OF OAK CREEK-FRANKLIN	4018	11,446	423,806,834	11,446	395,887,924	10,366	21,816,176	10,068
SCH D OF OAKFIELD	4025	939	30,980,298	939	28,311,660	844	1,542,578	827
SCH D OF OCONOMOWOC AREA	4060	9,952	460,470,639	9,952	435,219,466	8,932	24,658,123	8,509
SCH D OF OCONTO	4067	2,653	67,131,636	2,653	57,469,099	2,205	3,047,917	2,085
SCH D OF OCONTO FALLS	4074	2,834	78,829,252	2,834	69,265,581	2,449	3,696,684	2,334
SCH D OF OMAHA	4085	2,110	60,469,260	2,110	53,398,149	1,864	2,832,952	1,783
SCH D OF OMAHA	4095	2,993	119,020,447	2,993	110,951,675	2,797	6,008,541	2,682
SCH D OF OOSTBURG	4137	1,780	58,693,057	1,780	53,525,851	1,575	2,840,276	1,522
SCH D OF OREGON	4144	5,737	239,539,479	5,737	226,231,478	5,268	12,304,310	5,125
SCH D OF PARKVIEW (ORFORDVILLE)	4151	2,108	68,759,658	2,108	62,437,996	1,843	3,417,832	1,771
SCH D OF OSCEOLA	4165	2,182	68,298,873	2,182	61,976,307	1,913	3,329,353	1,821
SCH D OF OSHKOSH AREA	4179	28,982	822,305,010	28,982	800,115,277	25,542	43,507,576	24,269
SCH D OF OSSEO-FAIRCHILD	4186	1,864	62,995,999	1,864	56,062,106	1,532	1,895,808	1,445
SCH D OF OWEN-WITHEE	4207	1,215	25,884,081	1,215	21,086,728	1,001	1,099,143	1,001
SCH D OF PALMYRA-EAGLE AREA	4221	2,178	74,353,335	2,178	68,390,289	1,943	3,694,368	1,859
SCH D OF PARDEEVILLE AREA	4228	2,013	57,828,278	2,013	51,120,834	1,738	2,714,267	1,648
SCH D OF PARIS J 1	4242	260	9,915,942	260	9,189,399	239	511,644	230
SCH D OF PARK FALLS	4253	2,379	64,550,418	2,379	56,477,098	1,988	3,052,158	1,883
SCH D OF BEECHER-DUNBAR-PEMBINE	4263	889	18,839,859	889	15,181,567	715	787,023	660
SCH D OF PEPIN AREA	4270	822	18,655,397	822	15,692,452	683	826,370	647
SCH D OF PESHTIGO	4305	1,838	56,590,342	1,838	50,750,807	1,631	2,762,871	1,541
SCH D OF PEWAUKEE	4312	4,290	184,576,535	4,290	174,601,202	3,994	9,848,509	3,871
SCH D OF PHELPS	4330	170	4,464,231	170	3,769,060	151	187,661	142
SCH D OF PHILLIPS	4347	2,700	81,197,695	2,700	71,669,181	2,265	4,016,098	2,143
SCH D OF PHILLIPS	4368	1,468	39,397,273	1,468	34,660,501	1,234	1,893,829	1,196
SCH D OF PORT EDWARDS	4375	1,397	33,094,105	1,397	28,682,485	1,133	1,548,566	1,071
SCH D OF TRI-COUNTY AREA (PLAINFIELD)	4389	4,495	124,791,239	4,495	110,155,169	3,762	6,008,512	3,563
SCH D OF PLUM CITY	4459	464	10,905,602	464	9,049,211	392	475,686	370
SCH D OF PLYMOUTH	4473	5,500	178,892,877	5,500	162,603,116	4,857	8,811,679	4,650
SCH D OF PORTAGE COMMUNITY	4501	5,845	159,684,042	5,845	139,704,145	4,985	7,450,761	4,719
SCH D OF PORT EDWARDS	4508	1,013	39,327,287	1,013	37,816,681	890	2,167,995	841
SCH D OF PORT WASHINGTON-SAUKVILLE	4515	6,499	236,799,653	6,499	219,633,518	5,853	12,007,427	5,587
SCH D OF SOUTH SHORE (PORT WING)	4522	598	12,498,826	598	10,135,123	454	533,031	429
SCH D OF POTOSI	4529	818	23,184,955	818	20,598,171	706	1,134,791	699
SCH D OF POYNETTE	4536	2,072	67,933,652	2,072	62,242,516	1,800	3,329,584	1,799
SCH D OF PRAIRIE DU CHIEN AREA	4543	3,063	75,961,996	3,063	65,161,434	2,567	3,438,831	2,416
SCH D OF PRAIRIE FARM	4557	415	9,516,290	415	7,873,156	337	1,378,420	959
SCH D OF PRENTICE	4571	1,252	30,210,533	1,252	25,513,314	1,021	3,864,691	1,843
SCH D OF PRESCOTT	4578	2,229	79,096,875	2,229	73,269,058	1,988	1,178,414	850
SCH D OF PRINCETON	4606	1,056	26,319,593	1,056	22,518,180	3,609	7,202,915	3,488
SCH D OF PULASKI COMMUNITY	4613	4,102	142,619,060	4,102	131,108,821	52,293	104,813,309	49,414
SCH D OF RACINE	4620	60,100	2,081,613,928	60,100	1,902,520,472	52,293	1,050,726	497
SCH D OF RANDALL J 1	4627	585	21,333,996	585	19,710,816	530	1,059,643	948
SCH D OF RANDOLPH	4634	1,164	32,620,148	1,164	28,431,739	1,020	3,358,614	1,900
SCH D OF RAYMOND LAKE	4641	2,234	69,495,655	2,234	62,830,424	1,975	1,251,334	511
SCH D OF RAYMOND #14	4686	577	23,892,891	577	22,881,930	524	203,577	85
SCH D OF NORTH CAPE	4690	95	3,944,284	95	3,707,703	89	7,701,520	4,871
SCH D OF REEDSBURG	4753	6,003	165,074,264	6,003	144,846,892	5,139	2,175,627	1,389
SCH D OF REEDSVILLE	4760	1,654	45,799,802	1,654	40,523,165	1,445		

WISCONSIN DEPARTMENT OF REVENUE
SYSTEMS AND DATA PROCESSING (TSTX022)

WISCONSIN SCHOOL DISTRICT SUMMARY STATISTICS FOR 1995

SCHOOL DISTRICT NAME	DIST NUMBER	RETURN COUNT	TOTAL INCOME AMOUNT	TOTAL INCOME COUNT	NET TAXABLE AMOUNT	NET TAXABLE INCOME COUNT	NET TAX AMOUNT	NET TAX COUNT
SCH D OF RHINELANDER	4781	8,715	246,329,541	8,715	216,352,649	7,425	11,662,908	7,031
SCH D OF RICE LAKE	4795	1,175	27,166,957	1,175	22,867,178	952	1,197,975	919
SCH D OF RICE LAKE AREA	4802	6,149	172,407,935	6,149	150,447,769	5,184	8,126,604	4,887
SCH D OF RICHFIELD J 1	4820	626	29,773,435	626	28,400,430	601	1,563,989	582
SCH D OF RICHFIELD J 11	4843	347	18,827,889	347	16,307,097	334	904,697	324
SCH D OF RICHLAND	4851	3,838	100,062,887	3,838	86,096,420	3,232	4,637,057	3,011
SCH D OF RIO COMMUNITY	4865	1,039	28,336,607	1,039	24,881,738	902	1,330,931	863
SCH D OF RIVON	4872	4,245	129,746,250	4,245	115,127,788	3,676	6,270,363	3,480
SCH D OF RIVER FALLS	4893	6,151	205,783,635	6,151	188,624,658	5,387	10,151,137	5,171
SCH D OF RIVER RIDGE	4904	384	6,995,578	384	5,664,801	295	2,298,631	276
SCH D OF ROSENDALE-BRANDON	4956	1,887	54,777,102	1,887	48,920,611	1,634	2,513,603	1,589
SCH D OF ROSHOLT	4958	1,053	27,917,156	1,053	24,236,339	890	1,233,894	843
SCH D OF SAINT CROIX FALLS	4970	10,156	324,715,986	10,156	294,241,047	8,974	15,894,886	8,619
SCH D OF SAINT FRANCIS	4998	190	6,468,807	190	5,908,805	175	314,039	168
SCH D OF SALEM #7	5019	1,687	52,525,048	1,687	47,125,499	1,502	2,534,502	1,428
SCH D OF SALEM J 2	5026	4,141	116,373,192	4,141	103,085,737	3,724	5,504,317	3,514
SCH D OF SAINT CROIX FALLS	5061	422	14,615,739	422	13,349,802	389	700,174	373
SCH D OF SALEM #7	5068	1,453	52,583,907	1,453	46,539,508	1,296	2,611,392	1,238
SCH D OF SALEM J 2	5075	135	5,164,402	135	4,818,667	125	260,166	122
SCH D OF WILMOT GRADE SCHOOL	5100	5,116	161,160,927	5,116	146,075,837	4,502	7,838,610	4,271
SCH D OF SAUK PRAIRIE	5124	489	9,343,253	489	7,481,976	378	383,236	350
SCH D OF SENECA	5130	844	21,378,580	844	18,294,906	723	943,309	679
SCH D OF SEVASTOPOL	5138	3,814	109,879,212	3,814	98,549,541	3,277	5,305,010	3,137
SCH D OF SEVASTOPOL COMMUNITY	5258	613	17,095,770	613	15,212,465	524	801,229	499
SCH D OF SHARON J 11	5264	7,052	193,082,911	7,052	168,107,693	5,951	9,122,862	5,607
SCH D OF SHAWANO-GRESHAM	5271	11,163	397,595,349	11,163	363,601,006	10,443	19,578,702	9,326
SCH D OF SHEBOYGAN AREA	5278	3,930	135,188,950	3,930	123,568,103	3,561	6,786,819	3,404
SCH D OF SHEBOYGAN FALLS	5308	1,014	25,002,420	1,014	21,332,185	810	1,148,302	751
SCH D OF SHELL LAKE	5348	1,318	39,714,202	1,318	35,522,682	1,159	1,808,627	1,113
SCH D OF SHIOCTON	5358	5,486	309,386,322	5,486	295,229,426	5,863	17,011,134	5,630
SCH D OF SHOREWOOD	5362	738	17,554,996	738	15,046,908	621	798,489	587
SCH D OF SHULLSBURG	5369	941	30,456,916	941	27,763,675	831	1,483,214	795
SCH D OF SILVER LAKE J 1	5375	1,084	22,281,635	1,084	18,035,214	945	939,874	765
SCH D OF SIREN	5390	4,362	164,578,340	4,362	153,143,803	3,945	8,349,323	3,826
SCH D OF SLINGER	5397	585	14,994,296	585	12,902,232	489	683,835	469
SCH D OF SOLON SPRINGS	5432	1,377	46,245,698	1,377	42,414,925	1,231	2,288,939	1,196
SCH D OF SOMERSET	5439	9,554	294,121,427	9,554	255,045,523	8,537	14,206,377	8,095
SCH D OF SOUTH MILWAUKEE	5457	2,896	75,008,985	2,896	64,494,175	2,437	3,451,587	2,312
SCH D OF SOUTHERN DOOR COUNTY	5460	5,369	136,770,466	5,369	117,512,468	4,530	6,148,633	4,288
SCH D OF SPARTA AREA	5467	1,525	42,877,377	1,525	37,981,406	1,308	2,038,803	1,255
SCH D OF SPOONER	5474	3,585	81,488,344	3,585	68,652,116	2,843	3,607,687	2,569
SCH D OF RIVER VALLEY (SPRING GREEN)	5523	3,060	98,408,675	3,060	88,801,085	2,634	4,903,174	2,514
SCH D OF SPRING VALLEY	5586	1,909	28,294,201	1,909	25,395,246	1,692	1,401,158	1,384
SCH D OF STANLEY-BOYD AREA	5593	1,824	36,239,926	1,824	29,504,371	1,492	1,511,277	1,284
SCH D OF STEVENS POINT AREA	5607	20,625	643,586,900	20,625	580,909,260	17,850	31,814,250	16,580
SCH D OF STOCKBRIDGE	5614	430	14,663,939	430	13,406,655	391	726,859	380
SCH D OF STOUGHTON AREA	5621	7,351	251,037,165	7,351	230,672,414	5,541	12,301,935	6,237
SCH D OF STRATFORD	5628	1,659	43,734,763	1,659	38,342,533	1,435	2,047,740	1,381
SCH D OF STURGEON BAY	5642	1,386	43,443,060	1,386	38,540,031	1,247	2,054,183	1,161
SCH D OF SUN PRAIRIE AREA	5656	4,310	169,716,975	4,310	158,597,107	4,063	8,451,740	3,918
SCH D OF SUPERIOR	5663	13,430	361,309,906	13,430	314,819,164	11,403	16,991,271	10,758

WISCONSIN DEPARTMENT OF REVENUE
SYSTEMS AND DATA PROCESSING (TSTX022)

WISCONSIN SCHOOL DISTRICT SUMMARY STATISTICS FOR 1995

SCHOOL DISTRICT NAME	DIST NUMBER	RETURN COUNT	TOTAL INCOME AMOUNT	TOTAL INCOME COUNT	NET TAXABLE AMOUNT	NET TAXABLE INCOME COUNT	NET TAX AMOUNT	NET TAX COUNT
SCH D OF SURING	5670	1,291	27,649,401	1,291	22,528,719	1,035	1,162,046	954
SCH D OF THORP	5726	1,265	25,802,017	1,265	21,560,008	1,018	1,113,280	946
SCH D OF THREE LAKES	5733	1,818	52,148,444	1,818	45,360,637	1,495	2,496,104	1,382
SCH D OF TIGERTON	5740	705	14,952,008	705	12,179,488	568	627,729	542
SCH D OF TOMAH AREA	5747	7,098	197,727,642	7,098	174,529,899	5,795	9,417,227	5,452
SCH D OF TOMAHAWK	5754	4,067	109,673,848	4,067	95,489,899	3,439	5,130,432	3,219
SCH D OF FLAMBEAU	5757	1,208	25,234,829	1,208	20,709,035	934	1,099,365	857
SCH D OF TURTLE LAKE	5810	1,029	24,154,723	1,029	20,443,506	868	1,068,113	828
SCH D OF TWO LAKES #4	5817	493	17,677,685	493	16,597,279	462	885,295	447
SCH D OF TWO RIVERS	5824	2,908	95,989,033	2,908	86,473,898	2,709	4,688,871	2,587
SCH D OF UNION GROVE J 1	5859	2,301	70,173,544	2,301	63,566,224	2,036	3,419,444	1,971
SCH D OF VALDERS AREA	5866	2,251	67,532,325	2,251	60,893,852	1,981	3,321,692	1,902
SCH D OF VERONA AREA	5901	5,022	231,850,426	5,022	221,246,738	4,504	12,334,295	4,375
SCH D OF KICKAPOO AREA (VIOLA)	5960	771	17,850,060	771	14,751,588	598	809,706	563
SCH D OF VIROQUA AREA	5985	2,522	56,718,440	2,522	47,092,885	2,061	2,439,692	1,884
SCH D OF WABENO AREA	5992	1,241	26,601,078	1,241	21,592,281	963	1,132,555	901
SCH D OF WALWORTH J 1	6022	1,275	37,714,754	1,275	33,759,696	1,106	1,812,187	1,047
SCH D OF WASHBURN	6027	1,530	43,324,061	1,530	38,082,928	1,256	2,064,263	1,188
SCH D OF WASHINGTON	6069	451	13,423,068	451	11,948,450	391	635,878	364
SCH D OF WASHINGTON - CALDWELL	6104	352	14,155,716	352	13,200,472	322	709,780	319
SCH D OF WATERFORD J 1 (V)	6113	3,154	122,890,798	3,154	114,694,893	2,862	6,275,996	2,751
SCH D OF WATERLOO	6118	1,027	33,891,789	1,027	31,083,768	934	1,654,313	890
SCH D OF WATERTOWN	6125	11,728	342,915,968	11,728	307,201,543	10,317	16,201,389	9,742
SCH D OF WAUKESHA	6174	36,921	1,399,518,256	36,921	1,308,216,433	33,077	71,758,804	31,848
SCH D OF WAUNAKEE COMMUNITY	6181	4,548	183,590,504	4,548	173,289,086	4,159	9,438,212	4,046
SCH D OF WAUPACA	6195	5,216	153,188,612	5,216	144,086,093	4,433	7,323,097	4,124
SCH D OF WAUPUN	6216	5,639	162,765,319	5,639	144,086,027	4,977	7,697,847	4,756
SCH D OF WAUSAU	6223	11,136	423,586,084	11,136	390,968,654	10,138	21,486,151	9,669
SCH D OF WAUSAU	6230	1,630	35,541,244	1,630	29,053,397	1,295	1,515,653	1,201
SCH D OF WAUTOMA AREA	6237	2,903	68,613,881	2,903	57,178,303	2,361	3,002,288	2,177
SCH D OF WAUWATOSA	6244	23,155	964,139,866	23,155	907,398,180	20,925	50,845,942	19,884
SCH D OF WAUZEEKA-STEUBEN	6251	537	10,158,677	537	8,333,350	413	422,234	381
SCH D OF WEBSTER	6293	1,836	40,220,352	1,836	32,868,818	1,486	1,712,416	1,403
SCH D OF WEST ALLIS	6300	31,373	907,311,141	31,373	809,149,885	27,954	43,221,719	26,319
SCH D OF WEST BEND	6307	18,114	544,657,947	18,114	594,159,547	16,248	32,194,402	15,340
SCH D OF WESTBY AREA	6321	2,237	57,518,377	2,237	49,470,693	1,834	2,623,349	1,182
SCH D OF WEST DE PERE	6328	1,384	51,372,768	1,384	47,836,750	1,229	2,552,199	1,182
SCH D OF WESTFIELD	6354	3,491	83,546,386	3,491	70,889,542	2,863	3,767,338	2,676
SCH D OF WESTON (IRONTON)	6354	753	18,025,620	753	15,379,853	619	805,748	576
SCH D OF WEST SALEM	6370	2,431	72,709,814	2,431	64,918,073	2,114	3,442,509	2,011
SCH D OF WEYAUWEGA-FREMONT	6384	2,137	63,279,788	2,137	56,143,871	1,857	3,028,423	1,770
SCH D OF WEYERHAEUSER AREA	6410	362	6,601,182	362	5,129,841	260	263,337	246
SCH D OF WHEATLAND J 1	6412	1,189	38,747,566	1,189	35,387,744	1,047	1,901,355	1,001
SCH D OF WHITEFISH BAY	6419	6,545	467,838,893	6,545	455,792,005	5,958	27,040,664	5,760
SCH D OF WHITEHALL	6426	1,400	34,915,019	1,400	28,968,499	1,162	1,579,751	1,098
SCH D OF WHITE LAKE	6440	642	13,676,937	642	10,964,025	521	560,706	483
SCH D OF WHITEWATER	6461	5,078	146,878,624	5,078	130,949,499	4,382	7,082,475	4,139
SCH D OF WHITNALL	6470	4,303	172,550,863	4,303	162,444,359	3,900	9,046,723	3,710
SCH D OF WILD ROSE	6475	1,326	36,083,716	1,326	31,030,452	1,100	1,688,578	1,019
SCH D OF WILLIAMS BAY	6482	1,112	34,462,407	1,112	31,070,639	938	1,684,565	874
SCH D OF WINNECONNE COMMUNITY	6608	2,605	96,872,797	2,605	89,265,867	2,318	4,913,130	2,197

WISCONSIN SCHOOL DISTRICT SUMMARY STATISTICS FOR 1995

SCHOOL DISTRICT NAME	DIST NUMBER	RETURN COUNT	TOTAL INCOME AMOUNT	INCOME COUNT	NET TAXABLE INCOME AMOUNT	INCOME COUNT	NET TAX AMOUNT	TAX COUNT
SCH D OF WINTER	6615	1,071	21,138,018	1,071	16,888,744	808	896,727	745
SCH D OF WISCONSIN DELLS	6678	3,573	95,701,005	3,573	83,472,533	3,000	4,518,446	2,808
SCH D OF WISCONSIN RAPIDS	6685	15,052	494,979,858	15,052	449,323,247	13,255	24,889,190	12,553
SCH D OF WITTENBERG-BIRNAMWOOD	6692	2,566	64,963,571	2,566	55,764,178	2,167	2,985,522	2,048
SCH D OF WONEWOC-UNION CENTER	6713	821	18,504,977	821	15,448,037	697	816,661	648
SCH D OF WOODRUFF J 1	6720	2,126	57,728,880	2,126	51,089,077	1,809	2,751,888	1,688
SCH D OF WRIGHTSTOWN COMMUNITY	6734	1,239	40,621,136	1,239	37,250,145	1,129	2,006,266	1,085
SCH D OF YORKVILLE J 2	6748	543	22,817,591	543	21,448,139	506	1,200,195	491
SCHOOL CODE / TAX DISTRICT MISMATCH		281,992	9,316,845,160	281,992	8,523,016,806	230,562	481,969,680	218,589
STATE TOTAL -- VALID CODES ONLY		1,821,066	58,434,511,520	1,821,066	52,850,451,576	1,588,723	2,881,335,206	1,507,284
STATE TOTAL -- ALL RECORDS		2,103,058	67,751,356,680	2,103,058	61,373,468,382	1,819,285	3,363,304,886	1,725,873



State of Wisconsin • DEPARTMENT OF REVENUE

125 SOUTH WEBSTER STREET • P.O. BOX 8933 • MADISON, WISCONSIN 53708-8933 • 608-266-6466 • FAX 608-266-5718 • <http://www.dor.state.wi.us>

Tommy G. Thompson
Governor

Cate Zeuske
Secretary of Revenue

April 21, 1997

✓ The Honorable Brian Burke, Co-Chair
Joint Committee on Finance
119 Martin Luther King Jr. Blvd., Room LL1
Madison, WI 53702

The Honorable Scott Jensen, Co-Chair
Joint Committee on Finance
State Capitol, Room 315 North
Madison, WI 53702

Dear Senator Burke and Representative Jensen:

Wisconsin's individual income and corporate income and franchise taxes conform closely to the federal individual and corporate income tax bases. Each year the Legislature must consider whether to adopt for Wisconsin tax purposes those changes made to federal law, and it adopts those changes by updating the references in the Wisconsin statutes to the federal Internal Revenue Code (IRC).


Several changes were made to the IRC as a result of the Small Business Job Protection Act, the Health Insurance Portability and Accountability Act, and the Personal Responsibility and Work Opportunity Reconciliation Act (also known as the Welfare Reform Act) that affect Wisconsin tax law. Because of the large number of changes involved and their complexity, we were not able to complete review of the changes in time to incorporate them into the Governor's budget bill.

We are requesting your assistance in incorporating the IRC update items into the Budget Bill. Attached is a document describing the items, our recommendation whether to adopt the federal change, and an estimate of the fiscal effect of Wisconsin adopting the change. In general, we recommend adoption of the federal law changes for Wisconsin tax purposes. The net revenue effect of adopting the federal changes is -\$4.9 million in FY 1998 and -\$0.3 million in FY 1999.

A draft of the statutory language required for the IRC update is currently being prepared by the Legislative Reference Bureau.

If you have any questions, please let me know. We thank you for your assistance.

Sincerely,


Cate Zeuske
Secretary of Revenue

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Attachment

cc: Mark D. Bugher, Department of Administration
Robert Lang, Legislative Fiscal Bureau

INTERNAL REVENUE CODE UPDATE:
1996 FEDERAL TAX LAW CHANGES
AFFECTING WISCONSIN

Wisconsin Department of Revenue

Division of Research and Analysis
February 19, 1997

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Table 1: Summary of Federal Tax Law Changes in 1996 Affecting Wisconsin

Federal Tax Law Change	Effective Date	Recommendation For Wisconsin*	Fiscal Effect (\$ millions)	
			FY98	FY99
I. INDIVIDUAL INCOME TAX				
A. Tax Base				
1. Limit on Damages Exclusion	8/20/96	Adopt: 1/1/97	0.40	0.40
2. Exclusion for Employer-Provided Educational Assistance	1/1/95 to 6/30/97	Adopt: 1/1/97 to 6/30/97	(2.90)	Minimal -
3. Exclusion for Employer-Provided Adoption Assistance	1/1/97	Adopt: 1/1/97	Minimal -	Minimal -
4. Exclusion for Housing for Medical Research Institution Employees	1/1/96	Adopt: 1/1/97	Minimal -	Minimal -
5. Exclusion for Self-Insured Plans	1/1/97	Adopt	Minimal -	Minimal -
6. Long Term Care Insurance Payments Exclusion	1/1/97	Adopt	(4.80)	(4.60)
7. Combat Zone Compensation	8/20/96	Adopt	None	None
8. Medical Savings Accounts	1/1/97	Adopt	(1.60)	(1.90)
9. Accelerated Death Benefits	1/1/97	Adopt	None	None
B. Deductions				
1. Maximum Deductible Contribution to Spousal IRA	1/1/97	Adopt	(0.90)	(0.90)
2. IRA Distributions for Medical Expenses and Health Insurance Premiums	1/1/97	Adopt	Minimal -	Minimal -
3. Self-Employed Health Insurance Deduction	1/1/97	Adopt	Minimal -	Minimal -
4. Medical Expenses Deduction	1/1/97	Adopt	Minimal -	Minimal -
C. Credits				
1. Earned Income Tax Credit: Income and Phase-out Amounts; Inflation Adjustments	1/1/96	Adopt	None	None
2. Earned Income Tax Credit: Phase-out Based on Modified Adjusted Gross Income	1/1/96	Adopt	Minimal - GPR-Exp	Minimal - GPR-Exp
3. Earned Income Tax Credit: Definition of Disqualified Income	1/1/96	Adopt	Minimal - GPR-Exp	Minimal - GPR-Exp
D. Miscellaneous				
1. Alternative Minimum Tax: Residual REMIC Interest	1/1/87	Adopt	Minimal -	Minimal -
II. CORPORATE AND BUSINESS TAXES				
A. Tax Base				
1. Presidentially-Declared Disasters	1/1/95	Adopt	Minimal -	Minimal -
2. Stock Purchases	8/20/96	Adopt	Minimal +	Minimal +
3. Disposition of Passive Activity	1/1/87	Adopt	None	None
4. Interaction with Earnings Strippings	7/11/89	Adopt	Minimal -	Minimal -
5. Dues Paid to Agricultural or Horticultural Organizations	1/1/87	Adopt	Minimal -	Minimal -
6. Insurance Income of Controlled Foreign Corporations	1/1/96	Adopt	Minimal -	Minimal -
7. Common Trust Funds	1/1/96	Adopt	Minimal -	Minimal -
8. Energy Subsidies	1/1/97	Adopt	0.50	0.50
9. Water Utilities—Contributions in Aid of Construction	6/13/96	Adopt	Minimal -	Minimal -
10. Sales of Inventory Property	1/1/87	Adopt	None	None
11. Conforming Amendments to Repeal of General Utilities Doctrine	8/1/86	Adopt	None	None

Table 1, continued

Federal Tax Law Change	Effective Date	Recommendation For Wisconsin*	Fiscal Effect (\$ millions)	
			FY98	FY99
B. Deductions				
1. Home Office Deduction	1/1/96	Adopt	None	None
2. Election to Expense Depreciable Property	1/1/97	Adopt	(1.00)	(1.40)
3. Definition of Section 179 Property	1/1/91	Adopt	Minimal +	Minimal +
4. Gasoline Convenience Store Depreciation	8/20/96	Adopt	Minimal -	Minimal -
5. Income Forecast Depreciation Model	9/14/95	Adopt	Minimal +	Minimal +
6. Leasehold Improvements	6/13/96	Adopt	Minimal -	Minimal -
7. Solar or Wind Property Depreciation	1/1/91	Adopt	None	None
8. Depreciation of Water Utility Property	6/13/95	Adopt	Minimal +	Minimal +
9. Amortization Anti-churning Rules	8/11/93	Adopt	None	None
10. Company-Owned Life Insurance	10/14/95	Adopt	5.00	7.00
11. ESOP Loan Interest	8/20/96	Adopt	Minimal +	Minimal +
12. Earnings Stripping Limitation	7/10/89	Adopt	None	None
13. Stock Redemption Expenses	9/14/95	Adopt	None	None
14. Thrift Savings Associations—Bad Debt Reserve Method	1/1/96	Adopt	0.80	1.00
15. Salvage and Subrogation Recoveries of Casualty Insurance Companies	1/1/90	Adopt	None	None
16. Modified Guaranteed Contracts of Life Insurance Companies	1/1/96	Adopt	Minimal +	Minimal +
17. Deductions for Certain Health Organizations	1/1/97	Adopt	Minimal -	Minimal -
18. Contributions of Appreciated Stock	7/1/96 to 5/31/97	Adopt	Minimal -	Minimal -
C. Credits				
1. Work Opportunity Credit	10/1/96 to 9/30/97	Do Not Adopt	None	None
2. Extension of Research Credit	7/1/96	Adopt: 1/1/97	Minimal -	Minimal -
D. S Corporation Simplification				
1. Permissible Number of Shareholders	1/1/97	Adopt	Minimal -	Minimal -
2. Electing Small Business Trusts	1/1/97	Adopt	Minimal -	Minimal -
3. Tax-Exempt Organizations	1/1/98	Adopt	Minimal -	Minimal -
4. Post-Death Holding Period for Trusts	1/1/97	Adopt	Minimal -	Minimal -
5. Financial Institutions	1/1/97	Adopt	Minimal -	Minimal -
6. Financial Institutions—Safe Harbor Debt	1/1/97	Adopt	Minimal -	Minimal -
7. Ownership of Subsidiaries	1/1/97	Adopt: Requires Added Changes	Minimal -	Minimal -
8. Inadvertent Terminations and Invalid Elections	1/1/83	Adopt	Minimal -	Minimal -
9. Agreement to Terminate Year	1/1/97	Adopt	Minimal -	Minimal -
10. Post-Termination Period	1/1/97	Adopt	Minimal -	Minimal -
11. Audit Provisions	1/1/97	Do Not Adopt	None	None
12. Re-elections	Pre-1997 terms.	Adopt	Minimal -	Minimal -
13. Carryovers into Post-Termination Period	1/1/97	Adopt	Minimal -	Minimal -
14. Distributions During Loss Years	1/1/97	Adopt	Minimal +	Minimal +
15. Earnings and Profits	1/1/97	Do Not Adopt	None	None
16. Treatment of S Corporations Under Subchapter C	1/1/97	Adopt	None	None
17. Inherited S Corporation Stock	8/21/96	Adopt	Minimal +	Minimal +
18. Subdivided Real Estate	1/1/97	Adopt	Minimal -	Minimal -

Table 1, continued

Federal Tax Law Change	Effective Date	Recommendation For Wisconsin*	Fiscal Effect (\$ millions)	
			FY98	FY99
E. Pensions				
1. SIMPLE Retirement Plans	1/1/97	Adopt	(0.40)	(0.40)
2. Tax-Exempt Organizations Permitted to Offer 401(k) Plans	1/1/97	Adopt	Minimal -	Minimal -
3. Church Pension Plans	1/1/97	Adopt	Minimal -	Minimal -
4. Simplified Distribution Rules	Various	Adopt	Minimal +	Minimal +
5. Nondiscrimination Rules	1/1/97 (generally)	Adopt	Minimal -	Minimal -
6. Distributions from State and Local Government Deferred Compensation Plans	1/1/97	Adopt	Minimal -	Minimal -
7. Trust Requirements for State and Local Government Deferred Compensation Plans	8/20/96	Adopt	None	None
8. Limits on Compensation and Benefits of Governmental Plans	1/1/95	Adopt	Minimal -	Minimal -
9. Length of Service Awards Paid to Volunteers	1/1/96	Adopt	Minimal -	Minimal -
10. Vesting Rules for Multiemployer Plans	1/1/97	Adopt	Minimal -	Minimal -
11. Football Coaches Plan	12/23/87	Adopt	Minimal -	Minimal -
12. Multiple Salary Reduction Agreements	1/1/96	Adopt	Minimal -	Minimal -
13. Indian Tribal Government Plans	8/20/96	Adopt	Minimal -	Minimal -
14. Elective Deferral Limits on Tax-sheltered Annuity Contracts	1/1/96	Adopt	None	None
15. Distributions under Rural Cooperative Plans	8/21/96	Adopt	Minimal -	Minimal -
16. Waiting Period for Joint and Survivor Annuities	1/1/97	Adopt	None	None
17. Combined Plan Limit	1/1/00	Adopt	Minimal -	Minimal -
18. Actuarial Assumptions in Computing Maximum Benefits	1/1/95	Adopt	Minimal -	Minimal -
19. Contributions on Behalf of Disabled Employees	1/1/97	Adopt	Minimal -	Minimal -
20. Definition of Leased Employees	1/1/97	Adopt	Minimal -	Minimal -
21. Reemployment Rights of Veterans	12/12/94	Adopt	Minimal -	Minimal -
22. Miscellaneous Pension Simplification	Various	Adopt	None	None
23. Prohibited Transactions Excise Tax and Rule Changes	8/21/96	Adopt	None	None
F. Miscellaneous				
1. Financial Asset Securitization Investment Trusts	9/1/97	Adopt	Minimal -	Minimal -
2. Qualified State Tuition Programs	8/21/96	Adopt	None	None
3. Insurance Contracts on Retired Lives	1/1/96	Adopt	Minimal -	Minimal -
4. Alternative Minimum Tax: Adjustment for Energy Performance	1/1/91	Adopt	None	None
5. Charitable Risk Pools	8/21/96	Adopt	Minimal -	Minimal -
6. State-Sponsored High-Risk Health Insurance Pools	1/1/97	Adopt	Minimal -	Minimal -
7. State-Sponsored Workmen's Compensation Reinsurance Organizations	8/22/96	Adopt	Minimal -	Minimal -
8. Energy Policy Act Effective Date	1/1/91	Adopt	None	None

Table 1, continued

Federal Tax Law Change	Effective Date	Recommendation For Wisconsin*	Fiscal Effect (\$ millions)	
			FY98	FY99
III. ESTATE AND MISCELLANEOUS TAX CHANGES				
A. <u>Estate Tax</u>				
1. Special Valuation Rules	10/9/90	Adopt	Minimal -	Minimal -
2. Coordination of Unified Estate Tax Credit with Treaties	8/20/96	Adopt	Minimal +	Minimal +
B. <u>Estates and Trusts</u>				
1. Foreign Nongrantor Trusts	Various	Adopt	Minimal +	Minimal +
2. Inbound Foreign Grantor Trusts	8/20/96	Adopt	Minimal +	Minimal +
3. Outbound Foreign Grantor Trusts	2/7/95	Adopt	Minimal -	Minimal -
4. Residence of Foreign Trusts	1/1/97	Adopt	Minimal +	Minimal +
C. <u>Employment Taxes</u>				
1. Newspaper Distributors and Carriers	1/1/96	Adopt	None	None
2. Fishing Crew Members	1/1/85 to 12/31/94	Adopt	Minimal -	Minimal -

* "Adopt" means Wisconsin should adopt the federal change with the federal effective date; "Adopt" with a date means Wisconsin should adopt with the specified effective date; "Do Not Adopt" means Wisconsin should not follow the federal change.

Table 2: Summary of Federal Law Changes with Substantive Fiscal Effects for Wisconsin

Federal Tax Law Change	Effective Date	Recommendation For Wisconsin*	Fiscal Effect (\$ millions)	
			FY98	FY99
I. INDIVIDUAL INCOME TAX				
A. <u>Tax Base</u>				
1. Limit on Damages Exclusion	8/20/96	Adopt: 1/1/97	0.40	0.40
2. Exclusion for Employer-Provided Educational Assistance	1/1/95 to 6/30/97	Adopt: 1/1/97 to 6/30/97	(2.90)	Minimal -
6. Long Term Care Insurance Exclusion	1/1/97	Adopt	(4.80)	(4.60)
8. Medical Savings Accounts	1/1/97	Adopt	(1.60)	(1.90)
B. <u>Deductions</u>				
1. Maximum Deductible Contribution to Spousal IRA	1/1/97	Adopt	(0.90)	(0.90)
II. CORPORATE AND BUSINESS TAXES				
A. <u>Tax Base</u>				
8. Energy Subsidies	1/1/97	Adopt	0.50	0.50
B. <u>Deductions</u>				
2. Election to Expense Depreciable Property	1/1/97	Adopt	(1.00)	(1.40)
10. Company-Owned Life Insurance	10/14/95	Adopt	5.00	7.00
14. Thrift Savings Associations—Bad Debt Reserve Method	1/1/96	Adopt	0.80	1.00
E. <u>Pensions</u>				
1. SIMPLE Retirement Plans	1/1/97	Adopt	(0.40)	(0.40)
NET FISCAL EFFECT			(4.90)	(0.30)

* See note for Table 1.

INTERNAL REVENUE CODE UPDATE:
1996 FEDERAL TAX LAW CHANGES AFFECTING WISCONSIN

Because the bases for Wisconsin's individual income and corporate income and franchise taxes conform closely to the federal individual and corporate income tax bases, each year the Legislature must consider whether to adopt changes made to federal tax law for Wisconsin tax purposes. It adopts those changes by updating the references in the Wisconsin Statutes to the federal Internal Revenue Code (IRC)

This paper examines changes made to the IRC by the Small Business Job Protection Act (PL 104-188, hereinafter referred to as the Small Business Act), the Health Insurance Portability and Accountability Act (PL 104-191, the Health Insurance Act), and the Personal Responsibility and Work Opportunity Reconciliation Act (PL 104-193, the Welfare Reform Act). Only changes affecting Wisconsin are considered; changes that do not affect Wisconsin tax law are included in a longer paper, entitled *Internal Revenue Code Update*. The primary reference for this paper was *1996 Tax Legislation: Law and Explanation*, prepared by CCH Incorporated.

The analysis includes a description of the federal law change and its effective date, a recommendation on whether the state should follow the federal change and an estimate of the fiscal effect resulting if Wisconsin follows the recommendation. The net revenue effect of adopting these federal changes is - \$4.9 million in FY 1998 and -\$0.3 million in FY 1999.

I. INDIVIDUAL INCOME TAX PROVISIONS

A. TAX BASE

1. Limit on Damages Exclusion

Federal Change: The Small Business Act restricted the exclusion from gross income for punitive and compensatory damage awards. Awards for punitive damages cannot be excluded from gross income. In addition, damage awards for nonphysical injuries and sicknesses, and for emotional distress involving nonphysical injuries and sicknesses cannot be excluded. However, the amount of a damage award for emotional distress relating to a nonphysical injury or sickness that is attributable to medical expenses for emotional distress may be excluded from gross income. Damage awards for emotional distress involving physical injuries and sicknesses remain excludable from gross income.

Effective Date: For amounts received after August 20, 1996 and tax years ending after August 20, 1996.

Recommendation: Adopt the federal change for tax years beginning on January 1, 1997.

Fiscal Effect: +\$0.40 million in FY 1998; +\$0.40 million in FY 1999.

2. Exclusion for Employer-Provided Educational Assistance

Federal Change: The Small Business Act retroactively extended the exclusion for employer-provided educational assistance. It also disallowed the exclusion for graduate-level education expenses for courses beginning after June 30, 1996. The exclusion, which is limited to \$5,250 per person in qualified education expenses, is scheduled to expire May 31, 1997. For tax year 1997, only expenses paid for courses beginning before July 1, 1997, are excludable.

Effective Date: Tax years beginning after December 31, 1994, and before June 1, 1997; for tax years beginning in 1997, the exclusion applies for course beginning before July 1, 1997. The disallowance of the exclusion for assistance relating to graduate courses applies to expenses related to courses beginning after June 30, 1996.

Recommendation: Adopt the federal change for tax years beginning on January 1, 1997. The state should not adopt the retroactive extension of the federal exclusion, since that would require taxpayers to file amended returns for tax years 1995 and 1996 to obtain limited tax benefits. Under this recommendation, the exclusion would be allowed only for assistance in tax year 1997 provided for courses beginning before July 1, 1997.

Fiscal Effect: -\$2.9 million in FY 1998.

3. Exclusion for Employer-Provided Adoption Assistance

Federal Change: The Small Business Act created an exclusion for the amount paid or expenses incurred by an employer for an employee's qualified adoption expenses paid through an adoption assistance program. An adoption assistance program is a separate written plan of an employer for the exclusive benefit of employees. The exclusion is limited to \$5,000 per child for all tax years; \$6,000 in the case of a special needs child. The exclusion amount is phased-out for taxpayers with incomes between \$75,000 and \$115,000.

Qualified adoption expenses include reasonable and necessary adoption fees, court costs, attorney fees, and other expenses that are directly related to, and for the principal purpose of, the legal adoption of an eligible child, including all expenses required by a state as a condition of adoption. The expenses may not be incurred in violation of state or federal law, or incurred under a surrogate parenting arrangement or the adoption of spouses child.

An eligible child is an individual who has not attained the age of 18 at the time of adoption or a "child with special needs". After December 31, 2001 only special needs children are considered eligible.

Effective Date: Tax years beginning after December 31, 1996.

Recommendation: Adopt the federal change. Wisconsin currently provides a deduction from federal adjusted gross income (FAGI) in the calculation of Wisconsin adjusted gross income (WAGI) for adoption expenses. With enactment of the federal exclusion, the Wisconsin deduction should be limited to amounts included in FAGI.

Fiscal Effect: Minimal revenue loss.

4. Exclusion for Housing for Medical Research Institution Employees

Federal Change: The Small Business Act allowed an exclusion for the value of subsidized housing for employees of eligible academic health centers, if the employees pay an annual rent equal to at least 5% of the appraised value of housing. Qualified campus housing must be located on the employer's campus, or in the case of a state university system with many campuses, the campus of a component institution.

Eligible academic health centers must be charitable organizations, receive Social Security payments relating to graduate education training, and have the principal function of providing medical or hospital care, medical education, or medical research.

Employees of qualified academic health centers living in subsidized housing do not need to recognize income in the amount of the value of the subsidy as long as rent is at least 5% of the fair market value of the apartment. If market rents are less than 5% of fair market value, the amount of rent paid must be at least the average amount paid for comparable housing by individuals other than employees of the health center. If the amount of rent charged does not meet either of these thresholds, the employee must include in gross income the difference between the actual amount of rent charged and the applicable rent threshold.

Effective Date: Tax years beginning after December 31, 1995.

Recommendation: Adopt the federal change for tax years beginning on January 1, 1997.

Fiscal Effect: Minimal revenue loss.

5. Exclusion for Self-Insured Plans

Federal Change: The Health Insurance Act excluded from gross income amounts received by a self-employed individual for a personal injury or sickness, when the payment is from a self-insured accident or health plan.

Effective Date: Tax years beginning after December 31, 1996.

Recommendation: Adopt the federal change.

Fiscal Effect: Minimal revenue loss.

6. Long Term Care Insurance Payments Exclusion

Federal Change: The Health Insurance Act provided an exclusion for income received from long term care insurance contracts for personal injuries and sicknesses. The maximum amount of excludable income is \$175 per day (\$63,875 annually). Beginning in 1998, the maximum amount that can be excluded will be indexed for inflation. Premiums for long term care insurance provided by employers through cafeteria plans or other flexible benefit arrangements are not excludable.

Effective Date: For contracts issued after December 31, 1996.

Recommendation: Adopt the federal change.

Fiscal Effect: -\$4.8 million in FY 1998; -\$4.6 million in FY 1999.

7. Combat Zone Compensation

Federal Change: The Small Business Act replaced the term "combat pay" with "combat zone compensation" for purposes of an income exclusion for such compensation, the withholding provisions, and for cross reference purposes.

Effective Date: Effective on August 20, 1996.

Recommendation: Adopt the federal change.

Fiscal Effect: None, since the provision is a change in terminology only.

8. Medical Savings Accounts

Federal Change: The Health Insurance Act created a Medical Savings Account pilot program limited to 750,000 participants and set to expire at the end of year 2000. At the conclusion of the pilot program, existing accounts can be maintained, but new accounts cannot be established without Congressional approval to expand the program.

Eligible participants are the self-employed and employees of small employers, which are firms with 50 or fewer employees. For existing firms, the number of employees is the average number of employees over the previous two calendar years; for start-up firms, it is the average number of employees expected during the current year. Participating firms that grow beyond 50 employees may continue to enroll MSA participants until they have 200 employees; at that point, they may only maintain existing accounts.

Participation in an MSA requires enrollment in a high deductible health plan. For individuals, the deductible must range from \$1,500 to \$2,250 and the maximum out-of-pocket limitation is \$3,000. For families, the deductible must range from \$3,000 to \$4,500 and the maximum out-of-pocket limitation is \$5,500. These figures are adjusted for inflation annually.

Employer contributions to a MSA are excluded from gross income and contributions by an individual may be deducted from income. Contributions to an MSA are capped at 65% of the health insurance deductible for individuals and 75% of the deductible for family coverage. Although the limits on MSA contributions are based on the annual deductible amount, payments into a plan are restricted on a monthly basis and calculated as 1/12 of the annual contribution limit. Employer contributions through a "cafeteria plan" do not qualify for the exclusion.

Distributions from a MSA are excluded from income if they are expended for qualified medical expenses, including any unreimbursed medical costs for the benefit of an eligible MSA participant, his or her spouse and any dependent. Insurance may not be purchased with

funds from an MSA, with the exception of long-term health insurance. Distributions used for purposes other than eligible expenses are subject to a 15% penalty, unless the participant is 65 years or older.

Effective Date: Tax years beginning after December 31, 1996.

Recommendation: Adopt the federal change. Wisconsin has a medical savings account plan that is to take effect when a broad-based federal MSA is enacted. It has not yet been determined whether the federal pilot triggers the Wisconsin MSA. By adopting the federal change, Wisconsin would allow persons participating in the federal pilot to receive exclusions from gross income for employer contributions and for distributions used for qualified medical purposes. In addition, the existing Wisconsin plan should be repealed to avoid conflicts with federal law; this would ease reporting burdens for employers and employees, and prevent confusion.

Fiscal Effect: -\$1.6 million in FY 1998; -\$1.9 million in FY 1999.

9. Accelerated Death Benefits

Federal Change: The Health Insurance Act provided an exclusion for accelerated death benefits received under a life insurance contract on the life of an insured individual that is terminally or chronically ill. Also, income received from a viatical settlement provider may be excluded from gross income. In addition, death benefits received by a chronically ill individual may be excluded, but only if the payment is made under a rider or other provision of a contract that is treated as a qualified long term insurance contract. The maximum amount of excludable payments is \$175 per day (\$63,875 annually). Beginning in 1998, the maximum amount that can be excluded will be indexed for inflation.

A terminally ill individual is defined as a person who has an illness or physical condition which will result in death within 24 months, as certified by a legally practicing physician. A chronically ill individual is defined as person who: is unable to perform at least two activities of daily living for a period of 90 days due to loss of functional capacity as certified by a licensed health care practitioner, is certified as having such a disability, or requires supervision for health and safety reasons due to a cognitive impairment.

A viatical settlement provider is defined as a person engaged in the business of purchasing or accepting life insurance contracts on the lives of terminally or chronically ill persons. The provider must be licensed in the state in which the terminally or chronically ill person resides.

Effective Date: January 1, 1997.

Recommendation: Adopt the federal change. Wisconsin currently provides an exemption for viatical settlements. With enactment of the federal exclusion for viatical settlements, this exemption should be limited to amounts included in FAGI.

Fiscal Effect: None, since these payments are already exempt under Wisconsin law.

B. DEDUCTIONS

1. Maximum Deductible Contribution to Spousal IRA

Federal Change: The Small Business Act allowed nonworking spouses to contribute up to \$2,000 per year to a deductible IRA. This raises the amount a couple with one nonworking spouse may contribute to \$4,000; previously it had been \$2,250. The restriction that the aggregate contributions of both spouses cannot exceed their combined compensation was retained. If the working spouse earns over \$40,000 and is an active participant of an employee-sponsored retirement plan, the maximum amount of the spousal IRA deduction (\$2,000) is reduced as income rises from \$40,000 to \$50,000.

Effective Date: Tax years beginning after December 31, 1996.

Recommendation: Adopt the federal change.

Fiscal Effect: -\$0.9 million in FY 1998; -\$0.9 million in FY 1999.

2. IRA Distributions for Medical Expenses and Health Insurance Premiums

Federal Change: The Health Insurance Act eliminated the 10% additional tax on early distributions from an IRA, if the distribution is used to pay medical expenses that are in excess of 7.5% of adjusted gross income. The 10% additional tax also will not apply to distributions from an IRA for the payment of health insurance premiums after separation from employment.

In order to avoid the tax, an individual using an IRA distribution to pay insurance premiums must have received unemployment compensation for 12 consecutive weeks and the distributions must be made during any tax year in which the unemployment compensation is paid or during the following tax year. An individual is eligible for the exception to the 10% tax, if that individual is unemployed for more than 60 days after the initial separation from employment.

Self-employed individuals are treated as meeting the unemployment compensation requirements, if the individual would have received unemployment compensation were that individual not self-employed.

Effective Date: Effective for distributions made after December 31, 1996.

Recommendation: Adopt the federal change.

Fiscal Effect: Minimal revenue loss.

3. Self-Employed Health Insurance Deduction

Federal Change: The Health Insurance Act increased the deduction for health insurance expenses of the self-employed from 30% to 80%, phased in as follows: 40% in 1997; 45% in

1998 through 2002; 50% in 2003; 60% in 2004; 70% in 2005; and 80% in 2006 and thereafter. Also, the deduction is expanded to include long term care insurance premiums.

Effective Date: Tax years beginning after December 31, 1996.

Recommendation: Adopt the federal change.

Fiscal Effect: Minimal revenue loss. The loss results from permitting a deduction for long term care premiums; increasing the percentage of health insurance premiums deductible by the self-employed has no fiscal effect because Wisconsin already allows the self-employed to deduct 100% of their premiums for health insurance.

4. Medical Expenses Deduction

Federal Change: The Health Insurance Act allowed amounts paid for qualified long term care services provided to an individual, his or her spouse, or dependents to be deducted as medical expenses, which are deductible to the extent they exceed 7.5% of federal adjusted gross income. However, amounts paid to a relative, either directly or indirectly, are not deductible. Also, long term care insurance premiums are deductible up to maximum limitations of: \$200 for taxpayers younger than age 40; \$375 for those older than 40 but younger than 50; \$750 for those older than 50 but younger than 60; \$2,000 for those older than 60 but younger than 70; and \$2,500 for those older than 70. The maximum allowable amounts will be adjusted for inflation beginning in 1998.

Effective Date: For tax years beginning after December 31, 1996.

Recommendation: Adopt the federal change so these expenses may be used in the calculation of the state itemized deductions credit.

Fiscal Effect: Minimal revenue loss.

C. CREDITS

1. Earned Income Tax Credit: Income and Phase-out Amounts; Inflation Adjustments

Federal Change: The Welfare Reform Act set the earned income amounts and phase-out threshold amounts used to calculate the earned income tax credit (EITC) for 1996 as follows: earned income amounts are \$4,220 for eligible individuals with no children, \$6,330 for those with one qualifying child, and \$8,890 for those with two or more qualifying children; phase-out begins at \$5,280 for eligible individuals without children and \$11,610 for eligible individuals with qualifying children. These amounts already applied for 1996; the act simply specified them in federal law, and updated the procedures for adjusting the amounts for inflation.

Effective Date: For taxfilers receiving the advanced EITC as of June 26, 1996, the effective date is for tax years beginning after December 31, 1996. For all other EITC recipients, the effective date is for tax years beginning after December 31, 1995.

Recommendation: Adopt the federal change.

Fiscal Effect: None.

2. Earned Income Tax Credit: Phase-out Based on Modified Adjusted Gross Income

Federal Change: The Welfare Reform Act established modified adjusted gross income as the basis for calculating the earned income tax credit. Modified adjusted gross income is equal to adjusted gross income less: net capital losses, net losses from trusts and estates, net losses relating to nonbusiness rents and royalties, and 50% of net losses for trades or businesses.

Effective Date: For taxfilers receiving the advanced EITC as of June 26, 1996, the effective date is for tax years beginning after December 31, 1996. For all other EITC recipients, the effective date is for tax years beginning after December 31, 1995.

Recommendation: Adopt the federal change.

Fiscal Effect: Minimal expenditure reduction (the Wisconsin EITC is an appropriation, not a tax revenue provision).

3. Earned Income Tax Credit: Definition of Disqualified Income

Federal Change: The Welfare Reform Act expanded the definition of disqualified income for the calculation of the earned income tax credit. Disqualified income includes taxable and tax exempt interest, dividends, net rental and royalty income, net capital gain income, and net passive income. In order to be eligible to receive the credit the aggregate amount of disqualified income cannot exceed \$2,200.

Effective Date: For taxfilers receiving the advanced EITC as of June 26, 1996, the effective date is for tax years beginning after December 31, 1996. For all other EITC recipients, the effective date is for tax years beginning after December 31, 1995.

Recommendation: Adopt the federal change.

Fiscal Effect: Minimal expenditure reduction.

D. MISCELLANEOUS

1. Alternative Minimum Tax: Residual REMIC Interest

Federal Change: The Small Business Act provided the following rules for determining alternative minimum taxable income (AMTI) of a taxpayer holding a residual interest in a REMIC (these rules do not apply to thrift institutions):

- to prevent a taxpayer from having to include preference items for which no tax benefits were received in AMTI, the rule that taxable income cannot be less than the amount of excess inclusions does not apply;

- to prevent nonrefundable credits from reducing a taxpayer's income tax below the tentative minimum tax amount computed only on excess inclusions, the AMTI for a tax year cannot be less than the excess inclusions of residual interests in that year;
- to ensure that net operating losses will not reduce income attributable to excess inclusions, AMT net operating loss deductions are computed without excess limitation adjustments so that the taxpayer will pay tax on excess inclusions at the AMT rate.

Effective Date: Tax years beginning after December 31, 1986, unless a taxpayer elects to apply the provisions only to tax years beginning after August 20, 1996.

Recommendation: Adopt the federal change.

Fiscal Effect: Minimal revenue loss.

II. CORPORATE AND BUSINESS TAXES

A. TAX BASE

1. Presidentially-Declared Disasters

Federal Change: The Small Business Act expanded the involuntary conversion rules for presidentially-declared disasters. Business or investment property converted compulsorily or involuntarily as a result of a post-1994 disaster may be treated as similar or related in service or use to any tangible personal property of a type held for productive use by the trade or business. Thus, taxpayers may elect not to recognize gain of the involuntarily converted property if the tangible business or investment property is acquired within a certain time period. This provision is intended to help businesses forced to suspend operations for a substantial time because of property damage, during which markets and customers are lost, when the owners decide to reinvest their capital in a different business venture.

The boundaries for the Oklahoma City enterprise community designated on December 21, 1994, may be extended in census tracts located within the area damaged by the 1995 bombing.

Effective Date: Tax years ending after President declarations of disasters made after December 31, 1994. The extension of the Oklahoma City enterprise community boundaries is effective August 20, 1996.

Recommendation: Adopt the federal change.

Fiscal Effect: Minimal revenue loss.

2. Stock Purchases

Federal Change: The Small Business Act modified the involuntary conversion basis rules. When a taxpayer acquires control of a corporation owning property intended to replace involuntarily converted property of the taxpayer, and this taxpayer is required to reduce the basis of the acquired corporation's stock, then the corporation must also reduce the adjusted basis of its assets by the same amount. The taxpayer's basis is decreased by the amount of any unrecognized gain from the involuntary conversion. The corporation must reduce the adjusted basis of its assets by the same amount so as to prevent the taxpayer from having more aggregate depreciable basis after the acquisition of replacement property than before the involuntary conversion.

The adjusted basis of the corporation's assets may not be reduced below the taxpayer's basis in the stock and the basis of any individual asset may not be reduced below \$0. The basis adjustment is applied in the following order: (1) to property that is similar or related in service or use to the involuntarily converted property, in proportion to the adjusted basis of the assets in that group; (2) to other depreciable property, in a similar manner; and (3) to any remaining property, in the same manner.

Effective Date: Involuntary conversions occurring after August 20, 1996.

Recommendation: Adopt the federal change.

Fiscal Effect: Minimal revenue gain.

3. Disposition of Passive Activity

Federal Change: The Small Business Act clarified the tax treatment of losses when a taxpayer disposes of a passive activity. A taxpayer who disposes of a passive activity in a taxable transaction must first apply any net passive loss against income or gain from the taxpayer's other passive activities. Remaining loss from the passive activity may offset income from nonpassive activities.

Effective Date: Tax years beginning after December 31, 1986.

Recommendation: Adopt the federal change.

Fiscal Effect: None, since the change is a clarification.

4. Interaction with Earnings Strippings

Federal Change: The Small Business Act provided that a corporation must apply earnings stripping limits to interest expense deductions before applying at-risk and passive activity limits. Earnings stripping rules apply when a corporation has paid or accrued interest to certain related exempt persons. This provision nullifies a proposed IRS regulation that would have applied earnings strappings rules after the at-risk and passive activity limits.

Effective Date: Interest paid or accrued in tax years beginning after July 10, 1989.

Recommendation: Adopt the federal change.

Fiscal Effect: Minimal revenue loss.

5. Dues Paid to Agricultural or Horticultural Organizations

Federal Change: The Small Business Act exempted annual dues not exceeding \$100 that are paid to a tax-exempt agricultural or horticultural organization from the unrelated business income tax, retroactive to tax years beginning after December 31, 1986. The \$100 will be indexed for inflation in tax years beginning in a calendar year after 1995. Dues are any payment required for recognition as a member of the organization.

A transitional rule excludes dues paid in any year beginning before January 1, 1987, if the organization to which the dues were paid did not treat any portion of its membership as derived from unrelated trade or business, and it had a reasonable basis for doing so.

Effective Date: Tax years beginning after December 31, 1986.

Recommendation: Adopt the federal change.

Fiscal Effect: Minimal revenue loss.

6. Insurance Income of Controlled Foreign Corporations

Federal Change: The Small Business Act provided a new look-through rule for characterizing certain insurance income of a controlled foreign corporation for unrelated business tax income (UBIT). Insurance income earned by a controlled foreign corporation and includible in the income of a U.S. shareholder is not automatically characterized as UBIT dividends when the U.S. shareholder is a tax-exempt organization. Rather, the insurance income is treated as income from an unrelated trade or business to the extent it would be so characterized if the tax-exempt organization had received the income directly.

The new look-through rule does not apply to insurance income that is attributable to the insurance risks of the tax-exempt organization itself, certain tax-exempt affiliates or an individual performing services for the affiliates if the insurance covers primarily risks associated with performance of the services.

When controlled foreign corporations insure the risks of more than one shareholder, one or more of which is tax-exempt, the look-through rule exceptions are applied on a shareholder by shareholder basis.

Effective Date: Amounts includible in gross income for tax years beginning after December 31, 1995.

Recommendation: Adopt the federal change.

Fiscal Effect: Minimal revenue loss.

7. Common Trust Funds

Federal Change: The Small Business Act provided that assets may be transferred tax-free from a bank's common fund to a regulated investment fund (RIC). No gain or loss is recognized by fund participants when a common trust fund transfers substantially all of its assets to one or more RICs solely in exchange for RIC shares and then distributes those shares to the fund participants. It is intended that these transfers be made contemporaneously or pursuant to a single plan. Assumption of fund liability by an RIC and property transferred by a fund that is subject to liability are disregarded in determining if a transfer is solely in exchange for RIC shares.

Generally, RICs receive a carry-over basis on assets transferred from the common trust fund. However, the trust fund recognizes gain to the extent that the RIC assumes liabilities of the fund in excess of the fund's aggregate basis, and the RIC's basis is increased by the amount of the gain recognized. The basis of the RIC stock for fund participants is the same as the basis in the common trust fund immediately before the transfer (adjusted for gain). Any increase in basis is prorated according to the fair market value of the assets received when the fund assets are transferred to more than one RIC.

The nonrecognition rule applies to a common trust fund that does not have more than 25% of the value of its total assets invested in the stock or securities of any one issuer and does

not have more than 50% of the value of its total assets invested in stock or securities of 5 or fewer issuers. Government securities are not considered securities of an issuer and are excluded in determining total assets.

Effective Date: Transfers by common trust funds after December 31, 1995.

Recommendation: Adopt the federal change.

Fiscal Effect: Minimal revenue loss.

8. Energy Subsidies

Federal Change: The Small Business Act repealed a partial exclusion for subsidies provided by utilities for the purchase or installation of an energy conservation measure on nonresidential property.

Effective Date: For subsidies received after December 31, 1996, unless received pursuant to a binding written contract in effect on September 13, 1995 or later.

Recommendation: Adopt the federal change.

Fiscal Effect: +\$0.5 million in FY 1998; +\$0.5 million in FY 1999.

9. Water Utilities—Contributions in Aid of Construction

Federal Change: The Small Business Act provided that a regulated public utility providing water or sewage disposal services may treat money or property received as tax-free contributions to capital if the contribution is for construction, is not included in the taxpayer's rate base for rate-making and is property (other than water or sewage disposal facilities) that meets an expenditure rule. A contribution meets the expenditure rule if an amount equal to it is spent to acquire or construct tangible property used predominantly in furnishing water or sewage services, if the expenditure occurs before the end of the second tax year after the year the contribution was received, and if specified records regarding the contribution and expenditures are kept. The statute of limitations for assessing deficiencies attributable to contributions runs three years from the date the IRS is properly notified of the expenditures. The basis of property acquired with contributions is \$0.

Effective Date: Amounts received after June 12, 1996.

Recommendation: Adopt the federal change.

Fiscal Effect: Minimal revenue loss.

10. Sales of Inventory Property

Federal Change: The Small Business Act clarified that, to the extent the Treasury has general regulatory authority to provide rules for sourcing income from the sales of personal

property prior to the Tax Reform Act of 1986, the Treasury retains that authority for inventory property.

Effective Date: Tax years beginning after December 31, 1986.

Recommendation: Adopt the federal change.

Fiscal Effect: None, since this is a clarification.

11. Conforming Amendments to Repeal of General Utilities Doctrine

Federal Change: The Small Business Act provided conforming amendments to the repeal of the general utilities doctrine (and later technical corrections). The general utilities doctrine, which required recognition of gain on the distribution of appreciated property by a corporation to its shareholders, was repealed by the Tax Reform Act of 1986. Since then, various technical amendments have been made.

Provisions for treatment of gain from the sales or exchanges of stock in certain foreign corporations was changed to refer to the general rule regarding nonrecognition of gain or loss on the distribution of stock and securities in certain subsidiary corporations, which had been changed by the Revenue Reconciliation Act of 1990.

U.S. persons treated as realizing gain from the sale or exchange of controlled foreign corporation stock are treated as having sold or exchanged the stock for purposes of applying section 1248, relating to gains from the sale of stock in foreign corporations. This change was necessary because of a reference change made in the Technical and Miscellaneous Revenue Act of 1988.

The Act repealed provisions concerning the basis of U.S. real property interests distributed by domestic corporations to foreign shareholders. The basis of the property is the fair market value.

Effective Date: Liquidations after July 31, 1986, unless otherwise provided.

Recommendation: Adopt the federal change.

Fiscal Effect: None.

B. DEDUCTIONS

1. Home Office Deduction

Federal Change: The Small Business Act clarified that individuals are allowed to deduct expenses related to the portion of his or her home used regularly for the storage of product samples, as well as inventory. The clarification means that taxpayers need not distinguish between inventory and product samples in determining the deduction.

Effective Date: Tax years beginning after December 31, 1995.

Recommendation: Adopt the federal change.

Fiscal Effect: None, since the provision is a clarification.

2. Election to Expense Depreciable Property

Federal Change: The Small Business Act increased, from \$17,500 to \$25,000, the amount of the cost of qualified business property that eligible taxpayers may elect to immediately deduct in a year that the property is placed into service, rather than depreciate over the useful life of the property. The maximum expense deduction increase is phased in as follows: \$18,000 in 1997; \$18,500 in 1998; \$19,000 in 1999; \$20,000 in 2000; \$24,000 in 2001 or 2002; and \$25,000 in 2003 and thereafter.

Effective Date: Property placed in service in tax years beginning after December 31, 1996, subject to the phase-in schedule.

Recommendation: Adopt the federal change.

Fiscal Effect: -\$1.0 million in FY 1998; -\$1.4 million in FY 1999.

3. Definition of Section 179 Property

Federal Change: The Small Business Act eliminated certain property previously eligible for expensing in the year placed in service. Property no longer eligible includes property used outside the U.S., used in connection with furnishing lodging, or used by tax-exempt organizations, governments or foreign persons, and air conditioning or heating units.

Effective Date: Property placed in service in tax years beginning after December 31, 1990.

Recommendation: Adopt the federal change.

Fiscal Effect: Minimal revenue gain.

4. Gasoline Convenience Store Depreciation

Federal Change: The Small Business Act provided that, for depreciation purposes, any real depreciable property that is a retail motor fuels outlet is 15-year property, and that for purposes of the alternative depreciation system, retail motor fuels outlets have a 20-year class life.

Real property qualifies as a retail motor fuels outlet if either 50% or more the gross revenues are generated from petroleum sales or 50% or more of the floor space is devoted to petroleum marketing sales. For property placed in service in a tax year after the date of enactment, the 50% test will generally be applied in the year it is placed in service. The test may be applied in subsequent tax years if the property is placed in service near the end of the year and the use of the property during that period is not representative of its subsequent use.

For property placed in service in a tax year before enactment, the determination is based on an IRS Coordinated Issue Paper, but with the test included in the Act rather than in the paper. Property that once met, but later fails the 50% test for more than a temporary period may be treated as having a change in use and therefore subject to the 31.5-year nonresidential real property depreciation.

If a taxpayer treated a motor fuel outlet as a 15-year property prior to enactment, the taxpayer will be treated as if it were a valid election.

Effective Date: Property placed in service on or after August 20, 1996, and to which the accelerated cost recovery system (ACRS), as amended by the Tax Reform Act of 1986, applies. Taxpayers may elect to have the amendments apply to any ACRS property placed in service before the effective date.

Recommendation: Adopt the federal change.

Fiscal Effect: Minimal revenue loss.

5. Income Forecast Depreciation Model

Federal Change: The Small Business Act made several changes to the way depreciation is computed using the income forecasting method. This method is used to compute depreciation on property not depreciable under either the modified accelerated cost recovery system (MACRS) or the intangible amortization provisions for motion picture films and video tapes, television films, book manuscript rights, patents, master sound recordings, video games, and similar property.

The Act provided new rules are provided for determining: the amount of estimated income, the adjusted basis of depreciated property, the final year's allowable depreciation deduction, and the payment of interest based on the recomputation of depreciation under a look-back method based on actual versus estimated income.

Determining income under the forecast method. Depreciation is determined by multiplying the cost of the property (less estimated salvage value) by a fraction whose numerator is the income generated by the property during the year and whose denominator is the total estimated income derived over the property's useful life. Because the types of revenue that must be treated as estimated income from films is expanded, the cost of the films will not be recovered as rapidly as in the past. There are 11 tax years of income considered in determining the allowable depreciation under the income forecast method (income before the close of the 10th tax year following the year the property was placed in service). Generally, taxpayers need not consider income expected to be generated after the 11th year.

Income from films, TV shows and similar property includes income from foreign and domestic sources, theatrical releases, television releases and syndications, and video tape releases, sales, rentals and syndications. For TV and motion picture films, income must generally include amounts derived from the financial exploitation of characters, designs, scripts, scores, and other incidental income associated with the films.

Adjusted basis of depreciated property. The adjusted basis under the income-forecasting method of depreciation takes liabilities into account only when the economic activity (e.g., providing of services or of property to the taxpayer by another person) has been performed.

Costs treated as separate property may result in excluded income in applying the income forecast method to the original property. Any costs that are incurred after the property is placed into service and before the close of the 11-year period are treated as separate property if the costs are significant and give rise to a significant increase in income that was not included in the property's estimated income. Costs incurred after the 11-year period are also treated as separate property (these costs may be written off and deducted as they are generated).

Final depreciation deduction at end of the 11-year period. The depreciation deduction for the last year of the 11-year period is the adjusted basis of the property as of the beginning of the tax year.

Interest computed under look-back method. Taxpayers claiming depreciation deductions under the income forecast method must pay (or are entitled to receive) interest based on a recalculation of depreciation under a look-back method for any recomputation year. The look-back method does not apply to property with a basis of \$100,000 or less at the time it was placed in service. Generally, the third and tenth tax years after the tax year the property was placed in service are recomputation years, unless actual income from the property before the close of those years was within 10% of the estimated income for the period. The IRS has the authority to delay initial application of the look-back method if a taxpayer is expected to have significant income from property after the third tax year. Any cost incurred after the property is placed in service, if it is not treated as separate property, is discounted to its value as of the date the property was placed in service. Discounting is done using the federal mid-term interest rate at the time the costs were incurred. The taxpayer may elect not to discount any property.

The look-back method is applied in any recomputation year by first determining the depreciation deductions using the income forecast method that would have been allowed in a prior year if the computation had been made using the sum of: (a) the actual income from the property for periods before the close of the recomputation year, and (b) an estimate of future income for periods after the recomputation year but before the close of the 11-year period. Then, the overpayment or underpayment of tax for each prior year that would have resulted solely from the use of the recalculated depreciation method is determined. Finally, the interest is computed on the overpayment or underpayment using the specified rate. A simplified look-back method is applied for pass-through entities.

Interest required to be paid for any recomputation year is treated as an increase in tax for payment and collection purposes but not for estimated tax. Because the new rules apply to property placed in service in tax years ending before the date of enactment, no estimated tax penalty or penalty for substantial underpayment of tax will be made for any tax year ending before the date of enactment if the underpayment was created or increased by the new rules.

Effective Date: Property placed in service after September 13, 1995 (but not including property produced or acquired by the taxpayer pursuant to a binding written contract on September 13, 1995).

Recommendation: Adopt the federal change.

Fiscal Effect: Minimal revenue gain.

6. Leasehold Improvements

Federal Change: The Small Business Act allowed a landlord who disposes of or abandons a leasehold improvement, made by the landlord for the tenant, upon termination of a lease to use the adjusted basis of the improvement at the time of termination to determine gain or loss, even if there is no disposition of the underlying building. This provision does not apply to the extent that capitalizing of demolition costs and losses applies.

Effective Date: Improvements disposed of or abandoned after June 12, 1996.

Recommendation: Adopt the federal change.

Fiscal Effect: Minimal revenue loss.

7. Solar or Wind Property Depreciation

Federal Change: The Small Business Act clarified that solar or wind property owned by a public utility may qualify as 5-year MACRS property. The provision had been inadvertently changed by the deadwood provisions of the Revenue Reconciliation Act of 1990.

Effective Date: Property placed in service after December 31, 1990.

Recommendation: Adopt the federal change.

Fiscal Effect: None, since this provision is a clarification.

8. Depreciation of Water Utility Property

Federal Change: The Small Business Act provided that water utility property will be depreciated using a 25-year recovery period and straight-line method for regular tax purposes. Water utility property is any municipal sewer or other property that is integral to gathering, treating or commercially distributing water and that would otherwise have had a 20-year recovery period.

Effective Date: Property placed in service after June 12, 1996, other than property placed in service under a binding contract in effect before June 10, 1996 or later.

Recommendation: Adopt the federal change.

Fiscal Effect: Minimal revenue gain.

9. Amortization Anti-churning Rules

Federal Change: The Small Business Act clarified the treatment of amortization and anti-churning rules for goodwill and certain other intangible property acquired by related parties. Anti-churning rules prevent taxpayers from amortizing intangible assets acquired from related parties. These rules do not apply if a taxpayer and related parties made a special election to apply the amortization rules to acquisitions after July 25, 1991, when the property is acquired from an unrelated party and transferred to a related party.

Effective Date: Property acquired after August 10, 1993.

Recommendation: Adopt the federal change.

Fiscal Effect: None, since this provision is a clarification.

10. Company-Owned Life Insurance

Federal Change: The Health Insurance Act repealed the interest expense deduction for debt incurred by corporate-owned life insurance policies of officers, employees, or financially interested individuals purchased after June 20, 1986.

The new law permits a limited interest expense deduction on key person life insurance policies and annuity or endowment contracts, up to an aggregate of \$50,000 for allocation among a controlled group of corporate key person members. Key persons must be either officers or 20% owners (a person owning at least 20% of outstanding stock or the voting power of all stock or, for noncorporate entities, 20% of the capital or profits interest). The number of key persons is the lesser of 20 individuals or 5% of the total officers and employees of the taxpayer, but not more than five individuals.

The law caps the interest rate on key person contracts and disallows a deduction for interest that exceeds the cap. This interest cap applies to interest paid or accrued for any month beginning after December 31, 1995.

Income received under life insurance policies or endowments or annuity contracts on their complete surrender, redemption or maturity during calendar years 1996, 1997 and 1998 may be spread out over four years, beginning with the tax year in which the amount would otherwise be included. This transitional relief is also provided for full discharge of the obligation during those years to the extent the discharge is included in income for the tax year in which it occurs.

Unamortized balances of certain deferred policy acquisition expenses attributable to the contract cannot be capitalized. A deduction is allowed for the unamortized balances.

The interest expense deduction is eliminated over a transitional period (after October 13, 1995, and before January 1, 1999) for pre-1996 existing debt. Otherwise deductible interest incurred during the transitional period may be deducted to the extent the rate of interest does not exceed the rate specified in the contract as of October 13, 1995, or the Moody's rate, if it is less. For purposes of the transition, the applicable Moody's rate for a calendar year equals the following percentage of the rate: 100% for 1996, 90% for 1997, 80% for 1998, and 0% thereafter.

Effective Date: Interest paid or accrued after October 13, 1995.

Recommendation: Adopt the federal change.

Fiscal Effect: +\$5.0 million in FY 1998; +\$7.0 million in FY 1999.

11. ESOP Loan Interest

Federal Change: The Small Business Act repealed the interest income exclusion for employee stock ownership plan (ESOP) loans. As a result, banks, insurance companies, regulated investment companies and corporations actively engaged in lending may no longer exclude 50% of the interest received on ESOP loans or loans to employer corporations for acquiring employer securities from gross income. The repeal does not apply to loans made pursuant to a written binding contract in effect prior to June 10, 1996. The 50% interest exclusion continues to apply to refinancing loans if they were made on or before August 20, 1996, or they were made pursuant to a binding contract in effect before June 10, 1996, and the refinancing loan meets requirements in effect before the repeal, the outstanding principal of the loan is not increased immediately after the refinancing, and the term of the refinancing loan does not extend beyond the term of the original loan.

Effective Date: Loans made after August 20, 1996.

Recommendation: Adopt the federal change. Wisconsin already taxes most of this income, since it requires corporations to add it to federal income in computing Wisconsin taxable income.

Fiscal Effect: Minimal revenue gain.

12. Earnings Stripping Limitation

Federal Change: The Small Business Act clarified the interest expense deduction limits for interest paid to related persons exempt from U.S. tax in years in which there is excess interest and the debt equity ratio exceeds 1.5. The interest disallowed by the earnings stripping rules and carried over to a subsequent year is limited by the excess interest limitation for that subsequent year, regardless of whether the debt-equity ratio is exceeded.

Effective Date: Interest paid or accrued in tax years beginning after July 10, 1989. For demand loans outstanding on July 10, 1989, the provision does not apply to interest attributable to periods before September 1, 1989.

Recommendation: Adopt the federal change.

Fiscal Effect: None, since this is a clarification.

13. Stock Redemption Expenses

Federal Change: The Small Business Act clarified that the denial of stock redemption expenses applies to any reacquisition by a corporation of its own stock or the stock of related persons. A 10% relationship test applies rather than the 50% relationship test in certain cases. The deduction denial rules apply to any acquisition of previously outstanding stock, which could include reorganizations, sales of stocks, dividends or other transactions.

The Act also clarified that interest expenses associated with the reacquisition and amortized over the life of the debt are not subject to the denial rules. This clarification legislatively overturns the *Fort Howard Corp.* case, which disallowed deductions for interest in a leveraged buyout.

Effective Date: Amounts paid or incurred after September 13, 1995, in tax years ending after that date. The provision clarifying interest expenses subject to denial rules is applicable to amounts paid or incurred after February 28, 1986, in tax years ending after that date.

Recommendation: Adopt the federal change.

Fiscal Effect: None, since this is a clarification.

14. Thrift Savings Associations—Bad Debt Reserve Method

Federal Change: The Small Business Act repealed the reserve method of accounting for bad debts used by qualified thrifts. Thrifts that qualify as small banks can use the experience method of accounting for bad debts. Thrifts treated as large banks must use the specific charge-off method. Thrifts required to change methods of computing bad debt reserves must treat the change as a change in accounting methods, and request approval of the Treasury Secretary. Any adjustments required by the accounting method change will be considered solely based on excess reserves of the thrift and will generally be made ratably over a six-year period beginning with the first tax year after 1995.

Applicable excess reserves for thrifts that become large banks generally are the excess of the balance of its reserves at the close of its last tax year beginning before January 1, 1996, over the balance of its reserves as of the close of its last tax year beginning before January 1, 1988. Thrifts treated as large banks generally are required to recapture post-1987 additions to bad debt reserves whether the additions are made under the percentage of taxable income method or the experience method.

Applicable excess reserves for thrifts that become small banks are the excess of the balance of its reserves as of the close of its last tax year beginning before January 1, 1996, over the greater of the balance of either its pre-1988 reserves or what the reserves would have been at the close of its last tax year beginning before January 1, 1996, had the thrift always used the experience method. Thrifts that no longer qualify as banks have the balance of their pre-1988 reserves restored to their income ratably over a six-year period beginning in the year they no longer qualify.

If a thrift meets the residential loan requirement for a tax year, the recapture of applicable excess reserves that are otherwise required to be considered for a change of accounting

method adjustment for the year will be suspended. Thrifts meet the residential loan requirement for a tax year if the principal amount of residential loans made during the year is not less than its base amount, which is, generally, the average of the principal amounts of the residential loans made during the six most recent tax years beginning before January 1, 1996.

A thrift that converts to a credit union because of this provision will be treated as an institution that is not a bank. The change in accounting method adjustment required to be included in gross income will be treated as derived from an unrelated trade or business.

Effective Date: Tax years beginning after December 31, 1995. However, amendments to shareholder distribution provisions do not apply to any distribution of preferred stock if the stock is outstanding at all times after October 31, 1995, and the distribution is made before August 21, 1997. The repeal of the foreclosure on property securing loans provisions is effective for property acquired in tax years beginning after December 31, 1995. Amendments to the treatment of income in excess of daily accruals on residual interests do not apply to any residual interest held by a thrift if the interest has been held for all times after October 31, 1995.

Recommendation: Adopt the federal change.

Fiscal Effect: +\$0.8 million in FY 1998; +\$1.0 million in FY 1999.

15. Salvage and Subrogation Recoveries of Casualty Insurance Companies

Federal Change: The Small Business Act clarified provisions of the Revenue Reconciliation Act relating to the determination of earnings and profits of property and casualty insurance companies claiming deductions for the amount of discounted salvage recoverable as of January 1, 1990. Generally, earnings and profits are determined without taking these special deductions into account. Insurance companies subject to this provision are those that took into account estimated salvage and subrogation recoverable in determining losses incurred for the last tax year ending before January 1, 1990, thus entitling them to the deduction.

Since 1990, property and casualty insurance companies have been required to take into account recoverable salvage, including subrogation claims, in computing the amount of deductible losses, whether or not the salvage is considered an asset for statutory accounting purposes. For companies that had not previously computed losses in this way, a "fresh start" rule waived 87% of the amount of the income adjustments that would otherwise have to be made due to outstanding salvage recoverable as of January 1, 1990. Income adjustments were needed because the change in method of computing losses was considered a change of accounting method for which IRC Sec. 481 requires additional amounts to be included in income to make up for past overstatements of deductions. For companies that previously took estimated salvage into account, the fresh start rule allowed a deduction for 87% of the discounted amount of salvage recoverable as of January 1, 1990. The deduction was intended to provide equal treatment to the companies for which the new requirement was not a change of accounting method and which therefore did not need the special waiver of IRC Sec. 481 income adjustments.

Exceptions permit an insurance company to reduce its earnings and profits to reflect the amount of the deduction authorized by the Revenue Reconciliation Act of 1990 for the purposes of: making adjustments required in computing alternative minimum taxable income; computing the amount of deemed-paid foreign income taxes; and computing earnings and profits for purposes of the controlled foreign corporation rules.

Effective Date: Tax years beginning after December 31, 1989.

Recommendation: Adopt the federal changes.

Fiscal Effect: None, since this is a clarification.

16. Modified Guaranteed Contracts of Life Insurance Companies

Federal Change: The Small Business Act required life insurance companies to mark-to-market, at the end of each tax year, assets held as part of a segregated account under modified guaranteed contracts. The resulting gain or loss is used in determining a net increase or decrease in reserves in arriving at the income inclusion or deduction. "Life insurance reserves" include reserves for modified guaranteed contracts that are computed based on a rate of interest determined by reference to a market rate of interest. A modified guaranteed contract provides for a guaranteed interest rate for a specified period of time and a market value adjustment in the event that the owner surrenders the contract for cash prior to the end of the guaranteed interest period. A contract is a modified guaranteed contract if it is a life insurance, annuity or pension plan contract that is not a variable contract. In addition, the contract must meet certain specified requirements.

Effective Date: Tax years beginning after December 31, 1995.

Recommendation: Adopt the federal change.

Fiscal Effect: Minimal revenue gain.

17. Deductions for Certain Health Organizations

Federal Change: The Health Insurance Act allowed health insurance providers organized under, and governed by, state laws applicable only to not-for-profit health insurance or health service type organizations to deduct 25% of claims and expenses incurred during the year, less adjusted surplus. This provision extends the rules under IRC Sec. 833 that benefit Blue Cross and Blue Shield organizations to other organizations that otherwise meet the requirements. The provisions do not apply to health maintenance organizations.

Effective Date: Tax years ending after December 31, 1996.

Recommendation: Adopt the federal change.

Fiscal Effect: Minimal revenue loss.

18. Contributions of Appreciated Stock

Federal Change: The Small Business Act extended the deduction for contributions of stock to private foundations for contributions made during the period between July 1, 1996 and May 31, 1997. The amount of deduction is the fair market value of qualified appreciated stock, which is publicly traded stock that is capital gain property. The deduction applies only to the extent that total donations of stock in a particular corporation do not exceed 10% of the outstanding stock of the corporation. An individual is treated as making all contributions that are made by any member of the individual's family for purposes of the 10% limitation. The deduction does not apply to contributions made after December 31, 1994, and before July 1, 1996.

Effective Date: Contributions made after June 30, 1996, and before June 1, 1997.

Recommendation: Adopt the federal change.

Fiscal Effect: Minimal revenue loss.

C. CREDITS

1. Work Opportunity Credit

Federal Change: The Small Business Act replaced the targeted jobs credit with the work opportunity credit (WOC) for individuals beginning work for an employer after September 30, 1996. The WOC has fewer targeted groups, increases the minimum period in which a targeted group member must work for an employer, and is 35% rather than 40% of the first \$6,000 of wages paid to each targeted group member in the first year of employment. The Act disallowed both the targeted jobs credit and the new WOC for targeted group members who began work between December 31, 1994, and October 1, 1996.

Credit percentage. Generally, WOC equals a maximum of \$2,100 for each targeted group employee hired (35% of the first \$6,000 paid the first year of employment). For qualified summer youth employees, the maximum credit is \$1,050 (35% of the first \$3,000 of wages for work performed during any 90-day period between May 1 and September 15). An employer's deduction for wages is reduced by the amount of the WOC and wages used to compute the WOC cannot be used in computing any empowerment zone employment credits.

Minimum employment period. No credit is allowed for an individual who is employed less than 180 days (20 days for a qualified summer youth) or completes less than 400 hours of services for the employer (120 hours for a qualified summer youth). Under the jobs credit, the minimum employment period was 90 days (14 for qualified summer youth) and 120 hours (20 for qualified summer youth).

Targeted groups. WOC has seven targeted groups, compared to ten under the jobs credit. Eliminated were SSI recipients, youths participating in cooperative education programs, general assistance recipients, and involuntarily terminated CETA employees, while qualified food stamp recipients were added as a qualified group. A targeted group member includes:

- **Qualified Title IV-A (AFDC) recipient:** a certified member of a family receiving AFDC for at least nine months prior to hiring. Assistance must end within nine months of the date of hiring. Previously, the recipient had to be receiving AFDC, rather than a member of a family receiving assistance, for 90 days prior to being hired. The new law excludes previously eligible work incentive employees.
- **Qualified veteran:** a veteran who is certified as a member of a family receiving AFDC or food stamps, who served on active duty for more than 180 days and was not discharged or released for a service-connected disability, and who was not on extended active duty any day during the 60 days immediately preceding employment. To be certified as a family receiving AFDC or food stamps, the family must be receiving AFDC for at least nine months preceding employment or food stamps for at least three months prior to being hired (assistance must end within a year of being hired). WOC does not have the date of service restrictions under previous law, which limited the targeted group veterans to economically disadvantaged Vietnam era veterans who served after August 4, 1964, and before May 8, 1975.
- **Qualified ex-felons:** a person certified as having been convicted of a felony, who is a member of family whose income is 70% or less of the Bureau of Labor Statistics lower living standard and who is hired not more than a year after last being convicted or released from prison. The former jobs credit applied for ex-felons hired within 5 years of conviction or release from prison.
- **High-risk youths:** a youth at least 18 but less than 25 years old on the hiring date whose principal place of residence is within one of nine designated empowerment zones or 95 designated enterprise communities. No credit is allowed for wages paid or incurred for work performed while the youth's principal residence was outside an empowerment zone or enterprise community. Previous law required the youth to be a member of an economically disadvantaged family, but made no reference to residence.
- **Vocational rehabilitation referral:** a person certified as having a physical or mental disability that is a substantial handicap to employment who is referred to an employer after completing or while receiving vocational rehabilitation services under either an individualized written plan approved under the Rehabilitation Act of 1973 or certain veterans programs. These rules are the same as previous law.
- **Qualified summer youth employee:** a youth 16 or 17 years old on the hiring date (or, if later, on May 1) whose principal residence is within an empowerment zone or enterprise community. The credit is not allowed for wages paid or incurred for work performed while the youth's principal residence was outside the empowerment zone or enterprise community. The youth must not have worked for the employer claiming the credit prior to the 90-day period for which the work is allowed. If the youth is been certified as a member of another targeted group at the end of the 90-day period, the first year wage limitation will be adjusted for the summer youth wages. The previous jobs credit also required the youth to be from an economically disadvantaged family, but had no residence requirements.
- **Qualified food stamp recipient:** a person at least 18 but less than 25 years old on the hiring date who is a member of a family that either received food stamps for a six-month period ending on the hiring date, or if from a family no longer eligible for food

stamps, that received food stamps for at least three of the five months immediately preceding hiring.

The new law requires employers to obtain certification for targeted group members from its state empowerment security agency on or before the date the person begins work. Alternatively, the employer can complete a notice of prescreening, signed by both the employer and the targeted group member, that provides information that permits the employer to believe the person qualifies as a target group.

Effective Date: For individuals beginning work after September 30, 1996. The credit will expire on September 30, 1997, unless it is extended.

Recommendation: Do not adopt the federal change. Wisconsin uses the federal definition of targeted job member in the definition of persons on whose wages a development zone credit could be claimed. The Department of Commerce, which certifies businesses eligible for the credit, has indicated it would prefer to retain the prior federal definition.

Fiscal Effect: None.

2. Extension of Research Credit

Federal Change: The Small Business Act extended the credit for research activities for a period between July 1, 1996, through May 31, 1997. The credit expired on June 30, 1995, and the Act did not retroactively extend it for the period between July 1, 1995, and June 30, 1996. However, a taxpayer electing the alternative incremental credit regime for its first tax year after June 30, 1996, and before July 1, 1997, may apply the credit to amounts paid or incurred during the first 11 months of that tax year. If the credit is not extended after May 31, 1997, the credit base amount for a tax year affected by the modified credit is reduced to account for the credit's expiration.

The act also made several modifications to the credit:

- The definition of start-up company was expanded to include firms that have both gross receipts and qualified research expenses for the first time in a tax year that begins after 1983. Under prior law, a start-up company had to have fewer than three tax years beginning after December 31, 1983, and before January 1, 1989, in which the taxpayer had both gross receipts and qualified research expenses. Taxpayers may qualify under either the prior law or the new law definitions of start-up company.
- A taxpayer may elect an alternative computation for the research credit that uses three tiers of reduced fixed-base percentages and credit rates. The election must be made in the first tax year after June 30, 1996, and applies to that and all subsequent years unless revoked with the consent of the IRS. Without the alternative computation, companies that spend more on research and development now than they did during the 1984-1988 base period may be unable to claim the credit because current-period sales relative to base-period sales have increased more dramatically. Under the alternative computation, they may be able to claim a credit if their qualified research expenditures for the tax year exceed 1% of their average gross receipts for the preceding four tax years. The alternative computation may also increase the credit for companies that can still claim the credit under the standard computation.

- Taxpayers conducting research through qualified research consortia may treat 75% of amounts paid or incurred for qualified research expenses as eligible for the research credit. Prior law rules allowing 65% of contract research expenses paid or incurred for qualified research to be eligible for the research credit continue to apply to amounts not paid to a qualified research consortium. A qualified research consortium is a tax-exempt organization, other than a private foundation, or a business league, chamber of commerce or other similar entity organized and operated primarily to conduct scientific research.

Effective Date: Extension of the credit and the new definition of start-up company apply to tax years ending after June 30, 1996. The alternative research credit rules may be elected only for a first tax year beginning after June 30, 1996. The special rule for payments to qualified research consortia applies to tax years beginning after June 30, 1996.

Recommendation: Adopt the federal change for tax years beginning on or after January 1, 1997. Wisconsin bases calculation of its research credit on the federal credit.

Fiscal Effect: Minimal revenue loss.

D. S CORPORATION SIMPLIFICATION

1. Permissible Number of Shareholders

Federal Change: The Small Business Act increased the maximum number of eligible shareholders of an S corporation from 35 to 75.

Effective Date: Tax years beginning after December 31, 1996.

Recommendation: Adopt the federal change.

Fiscal Effect: Minimal revenue loss.

2. Electing Small Business Trusts

Federal Change: The Small Business Act provided that a small business trust may be a shareholder in an S corporation, if all beneficiaries of the trust are individuals or estates eligible to be S corporation shareholders (except that charities may hold contingent remainder interests). Each potential current income beneficiary (any person who is entitled to, or by discretion may receive, a distribution) of the trust is counted as a shareholder for the 75 shareholder limitation. Further, interests in a small business trust must be acquired by gift, bequest or other non-purchase method, rather than by purchase, in order for the trust to be eligible to be an S corporation shareholder. Each potential current income beneficiary (any person who is entitled to, or by discretion may receive, a distribution) of the trust is counted as a shareholder for the 75 shareholder limitation.

The portion of the trust that is S corporation stock is treated as a separate trust for income tax purposes and is taxed at the highest tax rate for trusts and estates (currently 39.6% on ordinary income and 28% on net capital gain). Taxable income includes: income, loss or

deduction allocated to the trust as an S corporation shareholder; gain or loss from the sale of S corporation stock; any state or local income taxes and administrative expenses of the trust property allocable to the S corporation stock; and otherwise allocable capital losses to the extent of capital gains. This income is not included in the distributable net income of the trust and not included in the beneficiaries income; no item relating to the S corporation stock is apportioned to any beneficiary.

In computing the tax, no deduction is allowed on amounts distributed to beneficiaries and no additional deductions or credits are allowed. The available alternative minimum tax exemption amount is \$0. Upon termination of all or any portion of the trust, any unused loss carryovers or excess deductions are taken by the entire trust.

Items included in the S corporation part of the trust are disregarded in determining the tax liability of the remaining part of the trust. The trust's distributable net income, which is deductible in determining taxable income, does not include any income attributable to the S corporation stock.

If a trust is terminated before the end of the S corporation's tax year, the trust must prorate the S corporation items for its final year.

Effective Date: Tax years beginning after December 31, 1996.

Recommendation: Adopt the federal change.

Fiscal Effect: Minimal revenue loss.

3. Tax-Exempt Organizations

Federal Change: The Small Business Act permitted a qualified retirement plan trust or 501 (c)(3) charitable organization exempt from taxation to be an eligible S corporation shareholder, counting as one shareholder in determining the number of shareholders in a corporation. All items of income, loss, credit or deduction and any gain or loss on the disposition of the stock in the S corporation are included in computing the unrelated business taxable income (UBTI) of the tax-exempt organization shareholder. All items of income and loss flow through to the tax-exempt shareholder. Determinations of the long-term capital gain, if charitable contributions of S corporation stock had been sold by the contributor, are made under rules similar to those relating to unrealized receivables and inventory items of a partnership. Rules relating to employee stock ownership plans do not apply to S corporations.

If a tax-exempt organization purchases S corporation stock during any time that the organization was a C corporation or an S corporation, and receives a dividend distribution from the stock, the shareholder's basis in the stock must be reduced by the amount of the dividend.

Effective Date: Tax years beginning after December 31, 1997.

Recommendation: Adopt the federal change.

Fiscal Effect: Minimal revenue loss.

4. Post-Death Holding Period for Trusts

Federal Change: The Small Business Act expanded the post-death holding period of S corporation stock for a grantor trust from 60 days to two years, beginning on the date of the grantor's death. Similarly, trusts that become S corporation shareholders pursuant to the terms of a will also have a two-year holding period, beginning on the date of the transfer into the trust.

Effective Date: Tax years beginning after December 31, 1996.

Recommendation: Adopt the federal change.

Fiscal Effect: Minimal revenue loss.

5. Financial Institutions

Federal Change: The Small Business Act permitted certain financial institutions that use a reserve method of accounting for bad debts to elect S corporation status. Entities that previously could not be S corporations, but now may be, include domestic building and loan associations, mutual savings banks and any cooperative bank without capital stock organized and operated for mutual purposes and without profit.

Effective Date: Tax years beginning after December 31, 1996.

Recommendation: Adopt the federal change.

Fiscal Effect: Minimal revenue loss.

6. Financial Institutions—Safe Harbor Debt

Federal Change: The Small Business Act expanded the definition of straight debt for purposes of certain safe harbor determinations to include debt held by non-individual creditors that are actively and regularly engaged in the business of lending money. The expansion applies to safe harbor determinations in which straight debt is not treated as disqualifying second class stock. Generally, straight debt is not treated as second class stock if: (1) the debt is an unconditional promise to pay a sum certain on demand on a specified date; (2) the interest rate on straight debt is not contingent on profits or payable at the borrower's discretion; (3) the straight debt is not convertible into stock; and (4) the debt obligation is owed to a creditor that is a permissible shareholder in an S corporation.

Effective Date: Tax years beginning after December 31, 1996.

Recommendation: Adopt the federal change.

Fiscal Effect: Minimal revenue loss.

7. Ownership of Subsidiaries

Federal Change: The Small Business Act permitted S corporations to own 80% or more of the stock of a C corporation. However, the S corporation cannot elect to file a consolidated return with its affiliated C corporations. Dividends received from a C corporation subsidiary are not treated as passive investment income to the extent they are attributable to the earnings and profits derived from the active trade or business of the C corporation. An S corporation may also own a qualified Subchapter S subsidiary, including any domestic corporation that qualifies as an S corporation and is 100% owned by an S corporation parent that elects to be treated as a qualified Subchapter S subsidiary. Such a subsidiary is not treated as a separate corporation, so all its assets, liabilities, income, deductions and credits are treated as the those of the parent S corporation.

Effective Date: Tax years beginning after December 31, 1996.

Recommendation: Adopt the federal change. Adopting this provision will require statutory language to provide that the election to be treated as a qualified Subchapter S subsidiary for federal purposes also applies for state purposes and that if any Subchapter S parent corporation or subsidiary has nexus in Wisconsin then all these related corporations have nexus in the state.

Fiscal Effect: Minimal revenue loss.

8. Inadvertent Terminations and Invalid Elections

Federal Change: The Small Business Act extended the authority of the IRS to waive the effect of inadvertent terminations of S corporations to cover an invalid election caused by an entity's inadvertent failure to qualify as a small business corporation or to obtain required shareholder consents, or both. The IRS may also treat late-filed subchapter S elections as timely if there is reasonable cause justifying the late filing. The IRS must be reasonable and apply standards that are similar to those used in the past for inadvertent terminations and other late or invalid elections.

Effective Date: Elections for tax years beginning after December 31, 1982.

Recommendation: Adopt the federal change.

Fiscal Effect: Minimal revenue loss.

9. Agreement to Terminate Year

Federal Change: The Small Business Act changed provisions regarding the consent of shareholders required for an election to close the books of an S corporation upon terminating a shareholder's interest. Consent of all "affected" shareholders, rather than all shareholders, is now required. After the election, the closing of the books applies only to affected shareholders, who are those whose interest is terminated or to whom the terminating shareholder has transferred shares during the year. If the terminating shareholder transferred shares to the corporation, then all shareholders during the year are affected shareholders.